

AR64

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POWER



To Unlock

Opportunity



TEN YEARS OF SOLID GROWTH

REVENUES

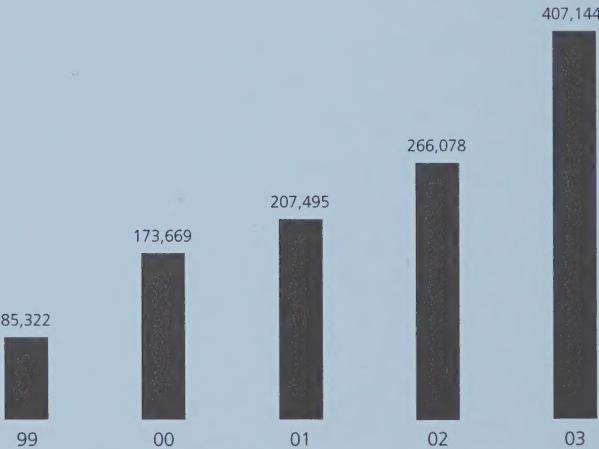
(IN THOUSANDS OF U.S. DOLLARS)

CAGR 41%



A growing network

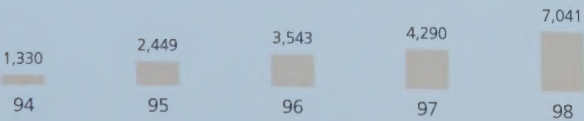
Through strategic growth, the Patheon network has increased from three Canadian-based facilities to eleven facilities located in the U.S., Europe and Canada.



EBITDA

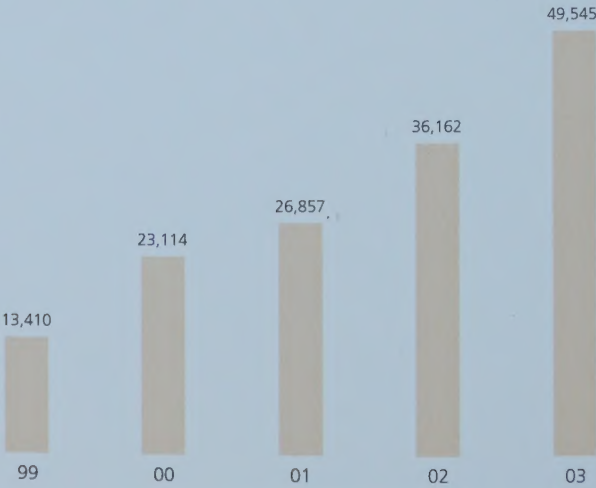
(IN THOUSANDS OF U.S. DOLLARS)

CAGR 49%



Growth of value-added services

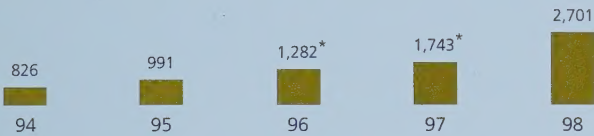
Rx commercial manufacturing and drug development services have made a significant contribution to the growth in EBITDA over the last 10 years.



NET EARNINGS

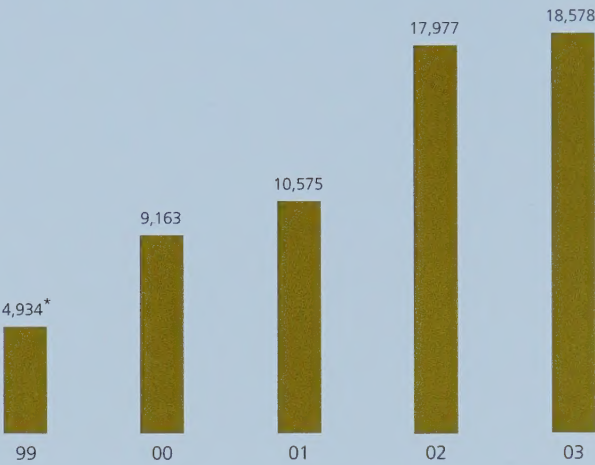
(*Before unusual items)
(IN THOUSANDS OF U.S. DOLLARS)

CAGR 41%



Increased profitability

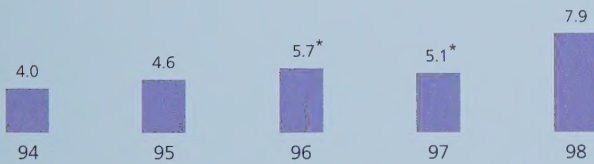
Since 1994, a strategy of accretive acquisitions combined with internal growth has enabled Patheon to deliver a solid track record of profitability.



EPS (BASIC)

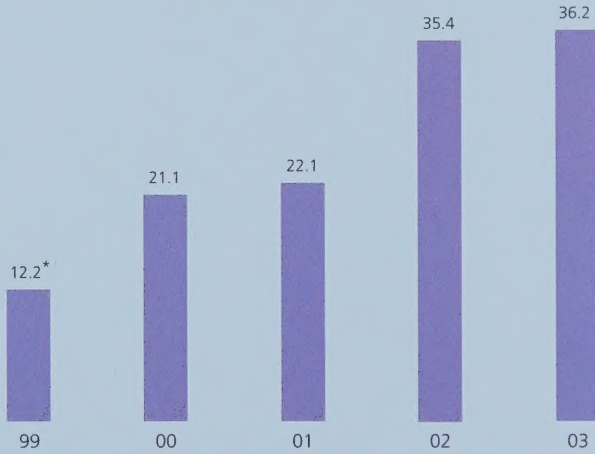
(*Before unusual items)
(IN U.S. CENTS)

CAGR 28%



Earnings per share

Basic earnings per share have grown almost tenfold in the last ten years, despite an increase in common shares outstanding from 21,703,964 in 1994 to 51,505,822 in 2003.



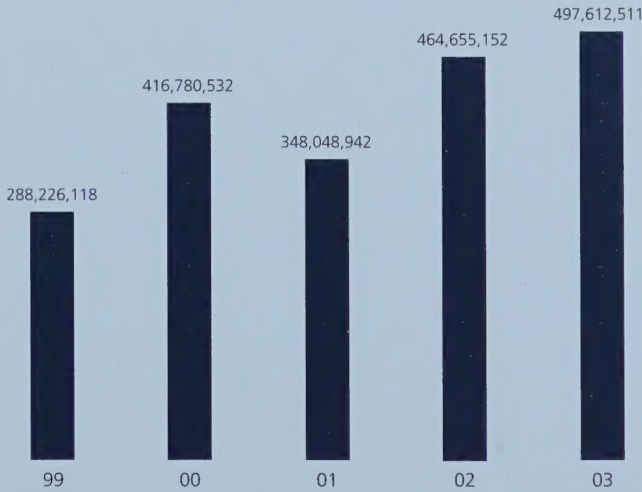
MARKET CAPITALIZATION

(IN CANADIAN DOLLARS)



From small- to mid-capitalization

Patheon was included in the TSE 200 and 300 indices (now the S&P/TSX Composite Index) in 1999, reflecting its growing stature as a public company in the Canadian equity markets.



29	32	46	48	50	50	52	
Consolidated Financial Statements	Notes to Consolidated Financial Statements	Board of Directors	Corporate Governance Statement	Senior Management	Management Advisory Board	Facilities	Corporate Information

KNOWLEDGE

To Open Doors to **Growth**

Rapid Growth and Expansion

- 2003** Launched PDS units at both Cincinnati and Ferentino Operations
- 2002** Established a platform in the U.S. market by acquiring Cincinnati site
Added more lyophilization (Rx) capacity by acquiring Ferentino (Rome) facility
Expanded lyophilization (Rx) capacity at both Monza and Ferentino Operations
- 2001** Added high-volume Rx and OTC capacity by acquiring Whitby facility
Added PDS capacity and expertise by expanding the formulation development facility at Toronto Region Operations and launching a PDS unit at Swindon Operations
- 1999** Strengthened presence in Europe by acquiring Bourgoin-Jallieu and Swindon sites
- 1998** Established presence in Europe and added sterile (Rx) capability by acquiring Monza site

CAPABILITY

Emerging

- 1997** Added high-potency (Rx) capability and PDS capacity by acquiring Toronto Region facility
- 1995** Established a dedicated PDS team
Added Rx capability with investment in Toronto York Mills site
- 1993** Changed name to Patheon Inc. and listed on the TSE (now TSX)
Expanded OTC capacity by adding Burlington Century facility

To Reach the Next Level

Start-up

- 1990** Expanded client base to include U.S.-based multinational pharma to benefit from NAFTA
- 1981** Added OTC powder capabilities by acquiring Burlington Gateway site
- 1974** OTC contract manufacturing business established in Fort Erie, Canada

Years ended October 31

(in thousands of U.S. dollars except share information, per-share amounts and percentages)

2003
\$2002
\$%
CHANGE**CONSOLIDATED STATEMENTS OF EARNINGS**

Revenues	407,144	266,078	53%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	49,545	36,162	37%
% of revenues	12.2%	13.6%	
Earnings before income taxes	28,707	23,809	21%
Provision for income taxes	10,129	5,832	74%
Net earnings	18,578	17,977	3%
% of revenues	4.6%	6.8%	

PER-SHARE INFORMATION**Earnings per share**

Basic	0.36	0.35	2%
Diluted	0.36	0.35	3%

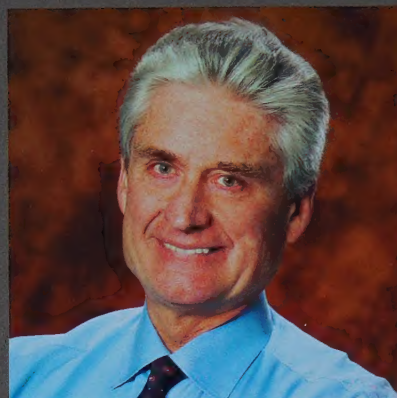
Weighted average number of shares outstanding

Basic	51,384	50,727	1%
Diluted	52,179	51,857	1%

BALANCE SHEET

Total assets	436,860	285,568	53%
Working capital	38,345	7,837	389%
Interest-bearing debt	114,626	54,003	112%
Shareholders' equity	193,923	149,908	29%
Return on shareholders' equity	11.4%	13.2%	
Interest-bearing debt to shareholders' equity	59.1%	36.0%	
Interest-bearing debt to total capitalization	37.2%	26.5%	
Book value per share at year end	3.77	2.94	28%

Thriving on **Change**



ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER

There has never been a time in our history when we have had so many opportunities for growth. To unlock these opportunities, we must continue to differentiate our services on the basis of both capabilities and technologies that enhance our ability to serve the innovators.

FISCAL 2003 CAPPED AN OUTSTANDING FIVE-YEAR PERFORMANCE WITH COMPOUNDED ANNUAL GROWTH IN REVENUES OF 48%.

For the year ended October 31, 2003, revenues increased by 53%, or \$141.1 million, to \$407.1 million. Of this increase, net internal growth at existing sites amounted to 23% or \$60.1 million. The balance, \$81.0 million, was strategic growth reflecting ten months' contribution from the Cincinnati site acquired in late December 2002. (All figures are in U.S. dollars.)

EBITDA grew 37% to \$50 million. As a percentage of revenues, EBITDA represented 12% compared with 14% a year ago. This reflects the anticipated short-term impact of the Cincinnati acquisition on margins, as well as the ensuing decline in the U.S. dollar and certain base commercial volumes.

Net earnings grew by 3%, impacted by higher depreciation and interest costs due primarily to the Cincinnati acquisition and the expansion of our lyophilization capacity. Earnings per share increased to 36.2 cents from 35.4 cents and, on a diluted basis, amounted to 35.6 cents compared with 34.7 cents a year ago. Cash provided from operations increased 27% to \$39.7 million.

Revenues from our sites in North America and Europe represented 62% and 38%, respectively, of total revenues. Our European operations recorded growth – all internal – of 33% resulting from continued strong demand for lyophilization (R_x) services at our Italian sites. Our North American operations had growth of 69%, including internal growth of 15% driven by increased demand for R_x manufacturing and PDS services, offset by a decline in OTC volumes at Canadian sites. The remainder was strategic growth resulting from the Cincinnati acquisition. At year end, R_x, OTC and PDS activities accounted for 63%, 26% and 11% of consolidated revenues, respectively, comparable with the previous year.

Our success is driven by change in the pharmaceutical industry and our proven ability to anticipate our clients' evolving needs for outsourced drug development and manufacturing services.

OPERATING CHALLENGES COME WITH NEW OPPORTUNITIES.

Our PDS business showed sequential growth throughout fiscal 2003. Uncertainty at the outset of the year, caused in part by a lack of financing in the biotech sector, gradually turned around and allowed us to finish with a significant increase in our PDS volumes.

At our Canadian sites, we continued to experience volatility in some of our base OTC business as a result of fluctuations in consumer demand for our clients' products. At our Swindon site, we are dealing with the challenge of faster-than-expected declines in volumes of certain products. These situations will continue to affect our results in 2004 as we work to replace the declining volumes and reposition the Swindon site to focus on new sterile business.

In the U.S., the integration of our Cincinnati site has been a solid success. In addition to the existing contracts acquired with the site, we have already gained new commercial volumes and added a PDS unit during the past year to serve the drug development needs of our clients.

Another of our team's proudest achievements in 2003 was our success in bringing on-stream our new lyophilization capacity in Italy, and the enthusiastic response of clients to our enhanced ability to meet their needs. A PDS unit, the fourth in our network, was also launched at Ferentino in the second half of the year.

A SUCCESSION OF OPPORTUNITIES HAS POSITIONED PATHEON ON THE WORLD STAGE AS A LEADER IN OUTSOURCED PHARMACEUTICAL SERVICES.

Over the last decade, Patheon has built a global manufacturing network and earned a reputation for providing high-quality drug development and commercial manufacturing services to the industry innovators. Our success is driven by changes in the pharmaceutical industry, which have resulted in a new way of thinking about outsourced pharmaceutical services and ever-growing opportunities for Patheon.

Ten years ago, a market study commissioned by Patheon indicated that the pharmaceutical industry would outsource only its OTC products. We persevered with our strategy to serve the innovators and today, more than 60% of our revenues come from manufacturing Rx products – compare that with about 5% in 1993. What a shift in thinking!

Five years ago, Patheon was manufacturing just one of the industry's 200 top-selling drugs. Today, that number has grown to 14, including two newly approved drugs that have emerged from our PDS pipeline.

Another dramatic change benefiting Patheon has been the shift in attitude toward the development of new drug products. Ten years ago, the innovators were mainly outsourcing the manufacturing of pharmaceutical chemicals. Today, as they face the growing challenges of bringing new drug products to market, they are outsourcing the development of their new drug products.

During the past three years, Patheon has provided clients with services to launch six newly approved patented drugs. Currently, there are six drugs in our PDS pipeline for which clients are awaiting FDA approval, with most having potential for commercial launch as early as 2004. At year end, Patheon was working on 97 new drug products on behalf of clients, compared with 62 a year ago.

Opportunities for Growth

- Capture the opportunity created by global pharma companies as they exit third-party manufacturing.
 - Continue to differentiate our services on the basis of both capabilities and technologies.
 - Acquire or develop technologies to help clients accelerate their development timeframes.
- Expand our network in North America and Europe through selective acquisitions that augment our current capacity and capabilities.
 - Leverage the growing reputation of the Patheon brand.

THERE HAS NEVER BEEN A TIME IN OUR HISTORY WHEN WE HAVE HAD SO MANY OPPORTUNITIES FOR GROWTH.

We continue to see growth in the market for our services. Based on our own experience over the last decade – and almost 30 years of experience in providing manufacturing services to the pharma industry – we believe that only 15% of the estimated \$50 billion market for commercial manufacturing services is being outsourced. Of that amount, we estimate that at least half is provided by global pharma companies to fill excess capacity in their networks. As the major industry players continue to revisit their manufacturing strategies, they are beginning to question the conventional wisdom of manufacturing for others. With the increased focus on quality standards by the regulators, global pharma companies are considering the extent to which they should be manufacturing not only their own products, but those of others. Yet another shift in industry thinking with potential for Patheon.

At Patheon, we are experiencing considerable new business opportunities for our specialized lyophilization and high-potency capabilities. Likewise, we are seeing increased demand for our sterile capabilities in Swindon. We aim to capitalize on that opportunity by repositioning the Swindon site – as we did with Toronto Region and Monza Operations – to focus on more specialized, value-added sterile capabilities. Through differentiation of our capabilities, we enhance our ability to serve the manufacturing needs of the pharmaceutical industry.

As of year end, we now offer development services at four strategic locations within our manufacturing network – two in North America and two in Europe. In addition to filling available capacity, we will be seeking or developing innovative drug delivery technologies to help our clients accelerate the development timeframe.

We continue to see many sophisticated commercial manufacturing sites in the U.S. and Europe. As the industry continues to restructure, sites unavailable yesterday are becoming available today. Using our disciplined criteria, we will take advantage of select opportunities to expand our existing network.

We are also beginning to see a noticeable increase in our brand recognition among the global pharmaceutical companies, biotechs and specialty companies. This can only enhance the strategic discussions about the advantages of third-party manufacturing that we continue to have with the leaders in the industry.



PETER A. W. GREEN
CHAIRMAN OF THE BOARD

EXECUTIVE APPOINTMENTS SUPPORT A GROWING ORGANIZATION.

In January 2004, we were pleased to announce the appointments of two of our senior executives, Mr. Clive V. Bennett and Mr. Aldo Braca, to new positions of responsibility within the organization. Mr. Bennett, who joined Patheon in 2002, became President, Patheon North America. Mr. Braca, who joined Patheon in 1999, became President, Patheon Europe. These appointments reflect the organization of Patheon’s commercial manufacturing operations into two distinct operating units, allowing us to more effectively pursue new opportunities for our sites and manage our growing business in the world’s two largest pharmaceutical markets.

UNLOCKING THE OPPORTUNITIES.

Over the last ten years, Patheon has proven itself to be singularly adept at recognizing and unlocking the outsourcing opportunity at a time when this segment of the industry was in its infancy. We have grown and matured with the segment, built our credibility among traditional and emerging players in the industry, and established widespread recognition of the Patheon name. Today with our global infrastructure, our quality systems and our world-class team of professionals, we are confident that we have the vision and the energy to meet today’s challenges and unlock the opportunities before us.

We wish to acknowledge our many partners who provide us with ongoing encouragement of our business strategy. Without the contribution of our employees, the trust of our clients and the support of our shareholders, we could not have progressed this far. Thank you.

A handwritten signature in black ink, appearing to read "R. Tedford".

ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER

A handwritten signature in black ink, appearing to read "Peter A. W. Green".

PETER A. W. GREEN
CHAIRMAN OF THE BOARD

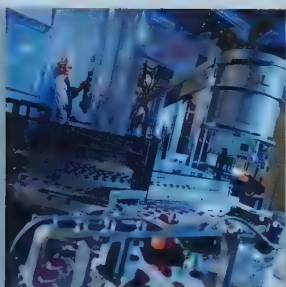
January 23, 2004

Patheon is one of the industry's most trusted partners for the manufacturing of commercial drug products.

COMMITMENT

To Stay at the Forefront

NICK A. DIPIETRO
PRESIDENT AND CHIEF
OPERATING OFFICER



The Opportunities for Commercial Manufacturing

AS THE PHARMA INDUSTRY CONTINUES TO EVOLVE OVER THE NEXT FEW YEARS, NEW OPPORTUNITIES WILL EMERGE FOR TOP-TIER PHARMACEUTICAL SERVICE PROVIDERS.

- Consolidation in the pharma industry will continue through mergers between global pharmaceutical companies, and acquisitions by global pharmaceutical companies of promising specialty pharma or biotechs. Mergers drive a willingness to divest facilities and outsource products.
 - Global pharmaceutical companies provide outsourced manufacturing services to third parties to fill excess capacity. Many of these companies will wind down their external manufacturing contracts and focus their manufacturing resources on their own products. This will create more opportunities for companies like Patheon that are focused on providing those services.
 - Global pharmaceutical companies will bring more focus to managing their external manufacturing service needs. External manufacturing departments will form an integral part of global pharma's manufacturing operations.
 - Many specialty pharma and biotechs have a smaller portfolio of products. Rather than invest in their own manufacturing facilities, they will continue to outsource their manufacturing requirements to reliable service partners.
 - Global pharma, specialty pharma and biotech companies will reduce the number of "approved" external manufacturers with whom they work. Only service providers with a proven ability to consistently meet the highest regulatory and industry standards will be considered preferred outsourcing partners.
- Quality standards for pharma products will continue to increase. This will create greater barriers to entry for potential competitors in the outsourcing business.



CLIVE V. BENNETT
PRESIDENT,
PATHEON NORTH AMERICA



ALDO BRACA
PRESIDENT,
PATHEON EUROPE

The Opportunities for Commercial Manufacturing

PATHEON IS ONE OF THE INDUSTRY'S MOST TRUSTED SERVICE PARTNERS FOR THE MANUFACTURING OF COMMERCIAL DRUG PRODUCTS.

Pharmaceutical companies operate globally and seek out partners like Patheon who can service their global needs. Patheon:

- Has critical mass – 3,800 employees operating a network of 11 sites with over 2.3 million square feet of high-quality manufacturing capacity.
- Has brand recognition – operating in North America and Europe – the world's two largest pharmaceutical markets – serving 150 clients and manufacturing more than 700 products that are distributed to over 125 countries.
- Has credibility – with an exemplary quality record in the world's pharma markets serving global clients from multiple sites.

PATHEON WILL CONTINUE TO RESPOND TO THE INDUSTRY'S NEED FOR SERVICE PROVIDERS WITH GLOBAL OPERATIONS.

Patheon's network will grow and become more focused on value-added technologies.

- Sites will be repositioned to focus on specific therapeutic dosage forms.
- All major sites will have FDA-approved manufacturing capabilities, providing clients with the ability to out-source products destined for the U.S. market.
- Services will continue to migrate towards value-added technologies.
- Disciplined acquisitions will result in an expanded network of facilities and capabilities.
- Patheon will increasingly devote more capacity to drugs successfully emerging from the PDS pipeline.
- OTC manufacturing will continue to be an integral part of Patheon's service portfolio.



READY

To Pioneer **New Frontiers**





DR. SHABBIR T. ANIK
EXECUTIVE VICE-PRESIDENT,
PHARMACEUTICAL DEVELOPMENT SERVICES
AND CHIEF SCIENTIFIC OFFICER



MICHAEL S. HARDING
EXECUTIVE VICE-PRESIDENT,
GLOBAL QUALITY OPERATIONS

The Pharmaceutical Industry Adopting New Strategies to Shorten Development Times and Improve the Clinical Success Rates of New Drugs

THE PHARMACEUTICAL INDUSTRY IS ADOPTING NEW STRATEGIES TO SHORTEN DEVELOPMENT TIMES AND IMPROVE THE CLINICAL SUCCESS RATES OF NEW DRUGS.

- Pharma is restructuring how it discovers and develops new drugs. All companies are attempting to shorten the time from when a drug candidate is first identified in the screening process until the first clinical trial begins. The new R&D paradigm is focused on bringing products to market faster and cheaper.¹
- Biotechs own about half the drugs in clinical development.² In 2003, for the first time ever, the Federal Drug Administration (FDA) received more submissions for biotech drugs than for traditional pharma drugs. However, most new submissions are partnered with or owned by global pharmaceutical companies.

From a start-up business in 1995, our PDS business now comprises four units in North America and Europe with 330 scientists and 97 projects in its pipeline.

- Each of the four operating units, located at Toronto Region, Swindon, Ferentino and Cincinnati Operations, represents a Centre of Excellence in a different development capability: high-potency, sterile, lyophilization and controlled release, respectively.
- Patheon provides pharmaceutical development services for virtually all dosage forms that it produces in commercial quantities.
- The number of projects in development on behalf of our clients represents a year-over-year increase of 56% and is more than double the pipeline in 2001.
- Our client base now includes a broad mix of global pharmaceutical, biotech and specialty pharma companies.
- Over the past three years, we have helped clients to develop, scale up and launch six newly approved Rx products, and six more have filed New Drug Applications with the U.S. FDA and are currently awaiting approval.

Patheon provides formulation development services for virtually all dosage forms that it produces in commercial quantities.



The Opportunities for Drug Development Services

THE NUMBER OF POTENTIAL NEW DRUG TARGETS WILL INCREASE DRAMATICALLY IN THE SHORT TERM.

Current trends in research activity are leading to demand for more development services capacity and more specialized services.

- The mapping of the human genome has resulted in numerous new drug targets, and is expected to lead to a large number of New Molecular Entities (NMEs) in development.
- The number of compounds making it to clinical trials will increase by more than 10% by as early as 2005.³
- A significant percentage of new protein-based drugs require specialized formulation or manufacturing techniques, including aseptic filling and lyophilization.
- Global pharma's internal resources will be stretched and they will seek development services partners to assist them in bringing potential new drugs through clinical trials, regulatory approval and to market – faster and cheaper.

PATHEON WILL CONTINUE TO FOCUS ON MEETING THE NEEDS OF THE INNOVATORS FOR MORE COST-EFFECTIVE DRUG DEVELOPMENT STRATEGIES.

Patheon's drug development services will focus on specialized areas of expertise – to provide quick, cost-effective drug formulation solutions for rapid entry into clinical trials.

As drug targets and new leads become more complex, Patheon will seek or develop innovative drug delivery technologies to help our clients maximize the potential of their NMEs.

Sources:
1 "Why Big Pharma urgently needs a new business model", The Economist, December 4, 2003.
2 "Biotech reaches a turning point in its evolution", Financial Times, December 16, 2003.
3 "The Clinical Trials Business", Business Communications Company Inc., April 2003.

Our **Performance** >>>

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RONALD B. MITCHELL, C.A.
CHIEF FINANCIAL OFFICER



All amounts in this Management's Discussion and Analysis ("MD&A") are in U.S. dollars unless otherwise noted

OVERVIEW

Patheon Inc. ("Patheon" or the "Company") is a Canadian public company, which trades under the symbol PTI on the Toronto Stock Exchange. The Company is an independent provider of commercial manufacturing and development services of prescription ("Rx") and over-the-counter ("OTC") drugs to the international pharmaceutical industry. Patheon's vision is to be the pre-eminent provider of pharmaceutical outsourcing services across all dosage forms. The Company owns and operates six manufacturing facilities in and around Toronto, Canada, which comprise 792,800 square feet of capacity, a manufacturing facility in Cincinnati, Ohio, U.S.A., with 457,000 square feet of capacity, and four manufacturing facilities in Europe: Monza (near Milan), Italy; Ferentino (near Rome), Italy; Swindon, United Kingdom; and Bourgoin-Jallieu (near Lyon), France, which comprise 1,053,000 square feet of capacity.

Patheon's commercial manufacturing activities relate primarily to Rx and OTC products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures a wide variety of products to client specifications in many packaging formats. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the client's distribution facilities. The manufacture of Rx and OTC products accounted for approximately 63% and 26%, respectively, of the Company's revenues in fiscal 2003.

Patheon's pharmaceutical development services ("PDS") include dosage form development, analytical methods development, pilot batch manufacture of new products for the regulatory drug approval process and the provision of scale-up services designed to show that a drug can be manufactured in commercial volumes. PDS accounted for approximately 11% of the Company's revenues in fiscal 2003.

During fiscal 2003, the Company served 150 clients, including 17 of the world's 20 largest multinational pharmaceutical companies, 6 of the top 20 biotech companies and 7 of the top 20 specialty pharma companies.

CONSOLIDATED REVENUES

Consolidated revenues for the year ended October 31, 2003 increased by 53% to \$407.1 million from \$266.1 million in 2002. The revenue increase from internal growth, or new business from existing sites in Canada and Europe, was \$60.1 million, or 23%, in the twelve-month period. The remainder was strategic growth related to the acquisition of the Cincinnati site on December 31, 2002. Rx manufacturing and pharmaceutical development services represented 74% of revenues, compared with 75% in 2002. Excluding Cincinnati revenues, Rx manufacturing and pharmaceutical development services represented 79% of revenues.

During the last five years, the Company's consolidated revenues have increased at a compounded annual growth rate (CAGR) of 48%.

During fiscal 2003, the Company served 150 clients, including 17 of the world's 20 largest multinational pharmaceutical companies, 6 of the top 20 biotech companies and 7 of the top 20 specialty pharma companies.

On December 31, 2002, the Company acquired a pharmaceutical manufacturing and development facility located in Cincinnati, Ohio, and entered into new long-term supply agreements in connection with the acquisition. In addition, the Company assumed responsibilities under existing service contracts with third-party pharmaceutical companies. The results for the period ended October 31, 2003 include the operations of this site for ten months.

RESULTS OF CONSOLIDATED OPERATIONS

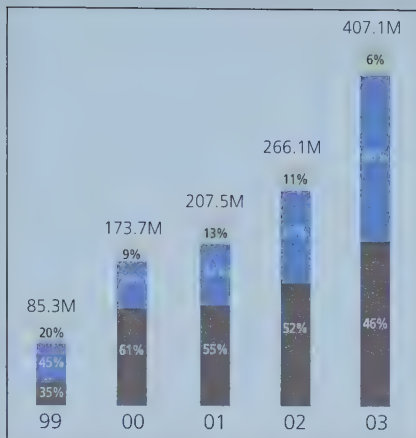
Years ended October 31 (in thousands of U.S. dollars, except percentages and per-share amounts)	2003 \$	2002 \$	% CHANGE
Revenues	407,144	266,078	53%
Operating expenses	357,599	229,916	56%
Earnings before depreciation, amortization, interest and income taxes	49,545	36,162	37%
(% of revenues)	12.2%	13.6%	
Depreciation and amortization	16,330	10,354	58%
Interest	4,508	1,999	126%
Earnings before income taxes	28,707	23,809	21%
Provision for income taxes	10,129	5,832	74%
Net earnings for the year	18,578	17,977	3%
Earnings per share			
Basic	\$0.36	\$0.35	2%
Diluted	\$0.36	\$0.35	3%

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

	REVENUES \$	EBITDA \$	NET EARNINGS \$	EARNINGS PER SHARE	
				BASIC ¢	DILUTED ¢
2003					
January 31	79,052	7,967	3,080	6.0	5.9
April 30	105,016	12,073	4,791	9.3	9.2
July 31	113,379	15,442	6,097	11.9	11.7
October 31	109,697	14,063	4,610	9.0	8.8
	407,144	49,545	18,578	36.2	35.6
2002					
January 31	59,072	6,884	2,794	5.5	5.4
April 30	65,001	8,052	3,830	7.5	7.4
July 31	70,502	10,520	5,474	10.8	10.6
October 31	71,503	10,706	5,879	11.6	11.3
	266,078	36,162	17,977	35.4	34.7

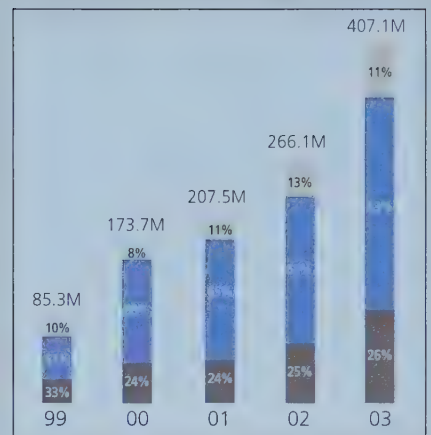
**REVENUES BY
GEOGRAPHIC REGION**
(IN U.S. DOLLARS)
(% OF TOTAL REVENUES)

CANADA
U.S.
EUROPE AND OTHER



**REVENUES BY
SERVICE ACTIVITY**
(IN U.S. DOLLARS)
(% OF TOTAL REVENUES)

PDS
Rx
OTC



REVENUES BY GEOGRAPHIC REGION AND SERVICE ACTIVITY

Geographically, revenue growth in North America was \$103.1 million or 69% over the same period in the prior year. This was driven by continued strong growth in Rx and OTC commercial manufacturing revenues, up 109% and 61%, respectively. Revenues from sites in North America represented 62% of total revenues compared with 56% a year earlier.

In Europe, revenues were 33% higher compared with the same period of 2002. European currencies remained strong against the U.S. dollar compared with the same period last year. The euro strengthened approximately 19% and U.K. sterling strengthened approximately 9%, increasing reported revenues by approximately \$20.4 million over the same period in 2002. While commercial volumes at Swindon declined, this was more than offset by strong growth in lyophilization volumes at the Company's Italian operations in Monza and Ferentino. Had exchange rates remained constant, the increase in revenues for Europe would have been 15% versus the comparable period of 2002 and earnings per share would have been approximately 1.6 cents lower.

REVENUES BY GEOGRAPHIC REGION AND SERVICE ACTIVITY

Years ended October 31
(in thousands of U.S. dollars, except percentages)

	2003 \$	2002 \$	% CHANGE
North America			
Commercial Manufacturing			
Prescription	110,586	52,813	109%
Over-the-counter	104,094	64,835	61%
	214,680	117,648	82%
Pharmaceutical Development Services			
	37,997	31,925	19%
	252,677	149,573	69%
Europe			
Commercial Manufacturing			
Prescription	147,786	112,265	32%
Over-the-counter	2,257	1,535	47%
	150,043	113,800	32%
Pharmaceutical Development Services			
	4,424	2,705	64%
	154,467	116,505	33%
TOTAL			
Commercial Manufacturing			
Prescription	258,372	165,078	57%
Over-the-counter	106,351	66,370	60%
	364,723	231,448	58%
Pharmaceutical Development Services			
	42,421	34,630	22%
CONSOLIDATED REVENUES	407,144	266,078	53%

During the year, the Company's Italian subsidiary entered into a new manufacturing services agreement with Roche S.p.A. to continue to supply Roche with solid, liquid and sterile products for the European market. The new agreement will commence on January 1, 2004 for an initial term of three years, with annual renewal provisions thereafter. The new agreement will replace the existing supply agreement which was signed as part of the acquisition of the facility in Monza, Italy, from the Roche Group in December 1998. Revenues are estimated to be approximately \$30.0 million in the first year and \$45.0 million over the next two years of the initial term of the agreement.

OPERATING EXPENSES

Operating expenses comprise processing costs, marketing, sales, service, corporate support and administrative expenses. In fiscal 2003, operating expenses increased by 56% over the previous year and, as a percentage of revenues, were 88% compared with 86% in 2002. The increase in expenses was the result of higher staffing levels, increased selling, marketing and administrative expenses in North America and Europe to support growing business volumes, the impact in 2003 of ten months of operating costs of the Cincinnati site, and the impact of the translation of European and Canadian denominated costs at higher exchange rates against the U.S. dollar. Patheon continues to invest in building its sales and marketing team, as well as other functional areas, in order to continue to realize and manage growth opportunities.

EBITDA

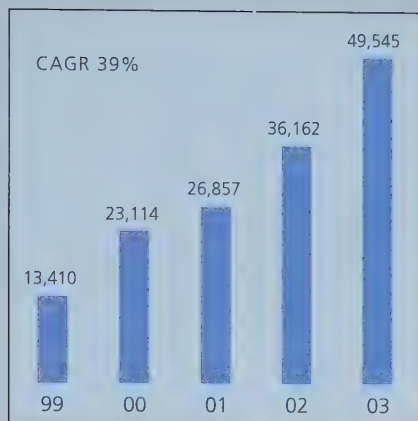
EBITDA, or earnings before interest, income taxes, depreciation and amortization, is a financial metric used by many investors to compare companies on the basis of operating results, asset value, and the ability to incur and service debt. EBITDA is not intended to represent cash flows or results of operations in accordance with Canadian generally accepted accounting principles. EBITDA may not be comparable to similarly titled amounts reported by other companies.

EBITDA increased by \$13.3 million, or 37%, to \$49.5 million from \$36.2 million in 2002. Over the past five years, the Company has achieved a compounded annual growth rate in EBITDA of 39%.

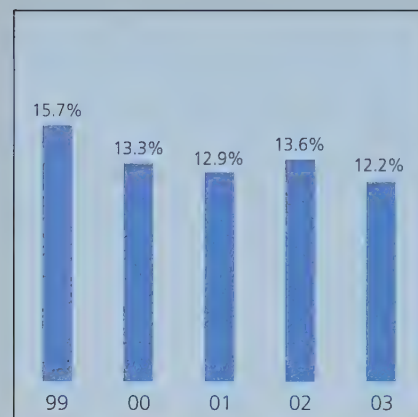
EBITDA MARGIN

As a percentage of consolidated revenues, EBITDA was 12.2%, compared with 13.6% in 2002, reflecting the impact of the relatively lower margins in the first and fourth quarters of 2003. While the inclusion of the Cincinnati operations was anticipated to have a slightly dilutive impact, the EBITDA margin was further impacted by net foreign exchange losses as a result of a significant weakening of the U.S. dollar against the Canadian dollar in 2003 and by operating losses at the Swindon, U.K. operations as a result of lower commercial volumes.

EBITDA
(IN THOUSANDS
OF U.S.DOLLARS)



EBITDA MARGIN
(% OF REVENUES)



DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense was \$16.3 million, compared with \$10.4 million in 2002, an increase of approximately \$6.0 million or 58%. The increase was due to the Cincinnati assets acquired and to the increased capital spending program in the last two fiscal years, principally in the Italian operations. Approximately \$1.0 million of the increase in depreciation expense was attributable to the translation of European depreciation at higher euro and U.K. sterling exchange rates against the U.S. dollar.

INTEREST EXPENSE

Interest expense for 2003 was \$4.5 million compared with \$2.0 million in 2002, an increase of \$2.5 million. The increase was attributable to the year-over-year increase in interest-bearing debt of \$60.6 million, approximately half of which related to the acquisition and operation of the Cincinnati site. The remainder of the increase related principally to the financing of the capital expansion program in Italy and increased financing requirements for the Company's Swindon, U.K. operations.

EBITDA was 11.0 times higher than interest expense in 2003, compared with 18.1 times in 2002. Earnings before interest and taxes (EBIT) were 7.4 times higher than interest expense in 2003, compared with 12.9 times in 2002.

The weighted average rate of interest paid on both short-term and long-term debt at the end of 2003 was 3.9% compared with 5.7% a year earlier. The reduction in the average interest rate was due to the general easing of global interest rates in both North America and Europe in 2003. At the end of the 2003 and 2002 fiscal years, the interest rate structure of the Company's interest-bearing debt was as follows:

	% OF DEBT OUTSTANDING		INTEREST RATES AT EACH QUARTER END IN 2003			
	2003	2002	Q4	Q3	Q2	Q1
Fixed rate	22%	22%				
Variable rate based on						
Canada						
Prime	3%	29%	4.50%	4.75%	5.00%	4.50%
Bankers' acceptances (1 month)	25%	—	2.86%	3.10%	3.38%	2.76%
U.S. base rate	—	—	4.50%	4.50%	4.75%	4.75%
U.S. LIBOR (1 month)	21%	—	1.12%	1.10%	1.32%	1.72%
Euribor (3 months)	22%	34%	2.16%	2.12%	2.53%	3.26%
U.K. base rate	7%	15%	3.50%	3.50%	3.75%	4.00%

EARNINGS BEFORE INCOME TAXES

Earnings before income taxes increased 21% to \$28.7 million in 2003, from \$23.8 million in 2002.

INCOME TAXES

The effective tax rate in 2003 was 35.3% compared with 24.5% in 2002. The effective tax rates reported for both years were significantly impacted by the recording of credits relating to an accelerated tax credit arising in the Company's Italian operations. The effective tax rates before and after the impact of the tax credits are as follows:

	2003	2002
As reported	35.3%	24.5%
Impact of non-recurring tax credit	1.9%	9.6%
Adjusted	37.2%	34.1%

The one-time tax credit program in Italy is not expected to impact the effective tax rate of the Company beyond the 2003 fiscal year. The effective tax rate is sensitive to the portion of income earned in higher, relative to lower, tax jurisdictions. The general corporate income tax rates applicable to the Company's operations are as follows :

	2004	2003	2002
Canada	35%	34%	34%
United States	37%	37%	n/a
United Kingdom	30%	30%	30%
France	35%	35%	35%
Italy	36%	36%	38%

The 2004 rates are indicative only and may be subject to change.

NET EARNINGS

Net earnings for 2003 increased by 3% to \$18.6 million, from \$18.0 million in the comparable period in 2002. Net earnings as a percentage of revenues were 4.6% compared with 6.8% in the same period last year.

Basic earnings per share were 36.2 cents in 2003 compared with 35.4 cents in 2002, an increase of 2%. Earnings per share on the diluted basis were 35.6 cents compared with 34.7 cents in 2002, an increase of 3%. Dilution arises solely from the Company's stock option plan. The dilutive impact was 0.6 cents or approximately 2% in 2003, compared with 0.7 cents or approximately 2% in 2002.

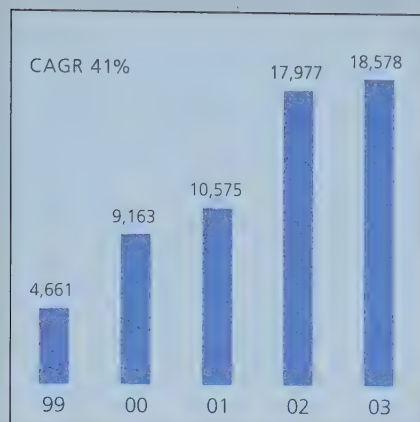
The average number of shares outstanding during the twelve-month period, determined on the basic and diluted bases, increased 1.3% and 0.6%, respectively. The increase in shares related solely to the exercise of stock options during 2003.

LIQUIDITY AND CAPITAL STRUCTURE

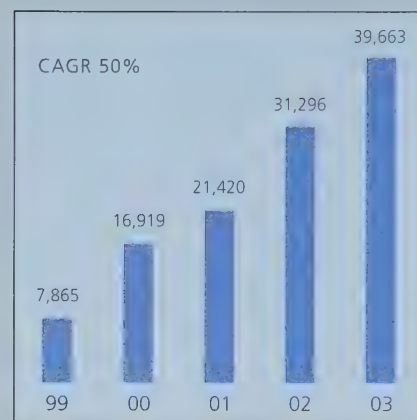
Cash provided from operations in 2003 increased 27% to \$39.7 million, from \$31.3 million in 2002. This cash flow was used principally to finance capital spending. Non-cash working capital decreased \$4.4 million in 2003 compared with a decrease of \$7.1 million in 2002.

Working capital at October 31, 2003 was \$38.3 million compared with \$7.8 million at October 31, 2002. Working capital at the end of 2003 was impacted by the inclusion of the Cincinnati operations and the refinancing of the Company's Canadian operations. The working capital ratio at October 31, 2003 was 1.3:1 compared with 1.1:1 at October 31, 2002.

NET EARNINGS
(IN THOUSANDS
OF U.S. DOLLARS)



**CASH PROVIDED
FROM OPERATIONS
BEFORE NET CHANGE
IN NON-CASH WORKING
CAPITAL BALANCES**
(IN THOUSANDS
OF U.S. DOLLARS)



ADDITIONS TO CAPITAL ASSETS

During 2003, the Company invested \$53.7 million in capital expenditures compared with \$41.0 million in 2002. Currently, the Company's major project-related programs are principally at its Monza and Ferentino facilities in Europe, in connection with the expansion of sterile lyophilization services, and at its Toronto Region facility in connection with improvements related to high-potency pharmaceutical manufacturing services.

The major capital programs anticipated in 2004 consist of approximately (in millions):

Completion of the lyophilization expansion at Italian sites	\$25.0
Capital programs at Cincinnati facility	\$10.0
Facility upgrades at Toronto Region site	\$ 8.0
Repositioning of Swindon facility	\$ 8.0

INTEREST-BEARING AND LONG-TERM DEBT

In December 2002, the Company completed a new financing agreement with its principal banker for its Italian operations, Banca Intesa S.p.A. This new agreement provides a long-term facility in the amount of 10 million euros (\$11.6 million) which bears interest at Euribor (three months) plus 1.08%. This facility is secured by mortgages on the Monza and Ferentino properties.

In June 2003, financing arrangements were completed with the State of Ohio. The financing comprises a \$3.0 million, seven-year loan with an interest rate of 3.0% granted under the State of Ohio's 166 Direct Loan program, and a \$9.0 million, five-year bond at 3.5% granted under the Ohio Enterprise Bond Fund.

On December 17, 2003, Patheon entered into C\$110 million (US\$83.4 million) financing commitment with a consortium of Canadian banks to refinance the Company's Canadian operations. This revolving, floating rate facility is composed of two parts: i) C\$45 million (US\$34.1 million) relates to operating requirements and is committed for two years, and ii) C\$65 million (US\$49.3 million) is a three-year committed, revolving, reducing term facility. This facility is secured against Patheon's Canadian assets and there are no principal repayments required for one year. This facility replaces the non-committed facilities previously in place for the Canadian operations.

Please refer to note 7 of the financial statements included herein for additional information regarding the Company's debt facilities.

The Company has no off-balance-sheet arrangements.

DEBT RATIOS

At October 31, 2003, the Company's consolidated ratio of interest-bearing long-term debt (including current portion) to shareholders' equity was 52.8% compared with 25.7% at the end of the previous fiscal year. The increase was principally due to the financing of the acquisition of the manufacturing facility in Cincinnati from existing lines of credit at the end of December 2002 and the financing of the Company's capital programs. At October 31, 2003, the Company's consolidated ratio of interest-bearing debt (including current portion and bank indebtedness) to shareholders' equity was 59.1% compared with 36.0% at the end of the 2002 fiscal year. This increase principally reflected the financing requirements of the acquisition and operations of the Cincinnati site and the financing requirements of the Company's capital program.

SHAREHOLDERS' EQUITY

At October 31, 2003, shareholders' equity was \$193.9 million, compared with \$149.9 million at October 31, 2002. On a year-to-date basis, the Company issued 592,800 common shares under its stock option plan for proceeds of \$0.64 million.

ACCOUNTING POLICIES

In December 2001, the Canadian Institute of Chartered Accountants ("CICA") issued recommendations with respect to stock-based compensation, effective for fiscal years beginning on or after January 1, 2002. Effective November 1, 2002, the Company adopted the recommendations of the CICA with respect to the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. The standard applies only to grants awarded after the adoption date. The Company follows the intrinsic value approach in its 2003 fiscal year financial reporting and appropriate disclosure has been made of pro-forma net earnings and earnings per share data, as if stock-based compensation had been recognized in earnings.

Please refer to notes 2 and 16 of the financial statements included herein for additional information on the accounting change.

In October 2003, the CICA issued revisions to Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, which will require companies to adopt the fair-value method of accounting. Companies will be required to expense the cost of options for fiscal years commencing on or after January 1, 2004.

CHANGE IN REPORTING CURRENCY

Effective August 1, 2003, the Company adopted the U.S. dollar as its reporting currency. In accordance with Canadian generally accepted accounting principles, the Company is required to restate all presented amounts in U.S. dollars, using the current rate method, whereby all revenues and expenses are translated at the average rates that were in effect at the end of these periods.

For periods after August 1, 2003, the assets and liabilities of the Company's operations having a functional currency other than U.S. dollars are translated into U.S. dollars using the exchange rate in effect at the month end, and revenues and expenses are translated at the average rate during the period. Exchange gains and losses on translation of the Company's net investment in these operations are deferred and reported in the cumulative translation adjustment, a separate component of shareholders' equity.

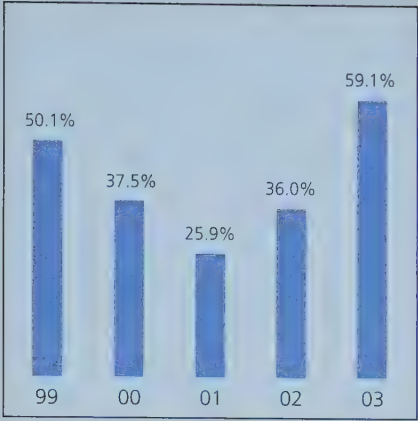
ENVIRONMENTAL, HEALTH AND SAFETY AFFAIRS

The Company has a commitment to safeguard the health of employees and the quality of the environment. Highly qualified environmental, health and safety professionals at all Company locations are dedicated to the maintenance and improvement of programs and procedures to ensure continued employee and environmental protection. To the best of the Company's knowledge, all of its facilities are in compliance with environmental and occupational health and safety regulations.

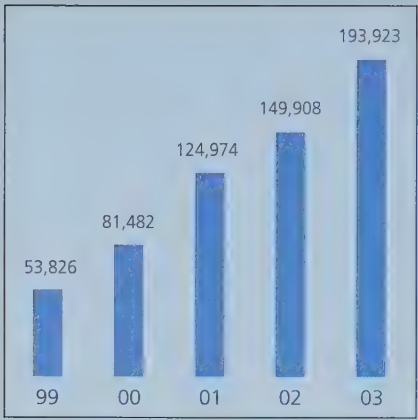
RISKS AND UNCERTAINTIES

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of the Company, please refer to the Company's Annual Information Form.

INTEREST-BEARING
DEBT TO SHAREHOLDERS'
EQUITY



SHAREHOLDERS'
EQUITY
(IN THOUSANDS
OF U.S. DOLLARS)



Foreign currency

The table below reflects the foreign exchange rates between the most common currencies in which Patheon conducts business and its U.S. dollar reporting currency.

Average exchange rates	2003	2002	% CHANGE
1 Canadian dollar equals U.S. dollars	0.6951	0.6356	9%
1 Euro equals U.S. dollars	1.0997	0.9252	19%
1 U.K. sterling equals U.S. dollars	1.6108	1.4789	9%
Year-end exchange rates	2003	2002	% CHANGE
1 Canadian dollar equals U.S. dollars	0.7584	0.6421	18%
1 Euro equals U.S. dollars	1.1618	0.9900	17%
1 U.K. sterling equals U.S. dollars	1.6973	1.5662	8%

Translation impact of changes in foreign exchange rates

Movements in European currencies have a translation impact on the consolidated results of the Company, more significantly on reported revenues, less so on earnings. Had European currencies remained constant to the rates of the prior year, the internal growth rate in Europe would have been 15% and earnings per share would have been approximately 1.6 cents lower.

Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the year-end exchange rates. The Company's operations outside Canada are considered self-sustaining. Accordingly, their accounts are translated into U.S. dollars using the year-end exchange rates, and revenues and expenses are translated at average rates during the year. Exchange gains or losses on translation of the Company's assets and liabilities to U.S. dollars are deferred as a separate component of shareholders' equity.

Unrealized translation adjustments, which arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of \$6.5 million for the year ended October 31, 2003 (2002 – unrealized currency translation gain of \$4.6 million). This net unrealized gain of \$6.5 million was attributable to the weakening of the U.S. dollar against the euro, U.K. sterling and the Canadian dollar, as measured at October 31, 2003 and October 31, 2002.

Trading impact of changes in foreign exchange rates

The Company's European operations negotiate sales contracts for payment principally in euros and U.K. sterling. The European operations' material, equipment and labour and other operating expenses are paid for principally in euros and U.K. sterling. Consequently, there is minimal exposure to foreign exchange gains or losses in the European operations.

The Company's U.S. operations negotiate sales contracts for payment principally in U.S. dollars and material, equipment and labour, and other operating expenses are paid for principally in U.S. dollars. There is minimal exposure to foreign exchange gains or losses in the U.S. operations.

The Company's Canadian operations negotiate sales contracts for payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll, facilities' costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. Approximately 60% of revenues of the Canadian operations and approximately 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience trading and translation gains or losses because of volatility in the exchange rate between the Canadian and U.S. dollar.

As noted in the table on the previous page, there was significant volatility in 2003 between the U.S. and Canadian dollar exchange rate. The average Canadian dollar exchange rate strengthened 9% compared with 2002. The Canadian dollar exchange rate at year end was 18% higher than at the previous year end. The strengthening of the Canadian dollar against the U.S. dollar negatively impacted net earnings for the year. Had the average Canadian-U.S. exchange rate in 2003 remained constant to the 2002 rate, net earnings would have been approximately \$4.0 million or 8 cents per share higher, net of the benefits derived from the Company's hedging program.

Hedging program

As a matter of policy, the Company does not hedge to protect the translated results of its foreign operations.

The Company utilizes financial instruments to manage the trading risk in its Canadian operations associated with fluctuations in the exchange rates between the U.S. and Canadian dollar. A portion of foreign-denominated cash inflows of the Canadian operations, principally U.S. dollars, are naturally hedged by outflows in the same currencies for materials and additions to capital assets as well as payments to service the foreign-denominated debt. The Company has controls in place to monitor its foreign exchange exposure.

The Company has entered into foreign exchange expandable forward contracts with an aggregate amount of between US\$22.0 million and US\$33.0 million as at October 31, 2003. These contracts mature at the latest on September 30, 2004 at exchange rates varying between 1.3189 and 1.3384 Canadian. There was no significant unrealized gain or loss on these financial instruments as at October 31, 2003.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecasted transactions.

The Company may enter into further forward contracts in the future. The amount and timing of the forward contracts will be dependent upon a number of factors, including anticipated production delivery schedules and anticipated production costs which may be paid in U.S. dollars. There can be no assurance that such hedging transactions, if entered into, will be successful. Despite these measures, significant long-term fluctuations in relative currency values of the U.S. and the Canadian dollar could affect the Company's results of operations.

GOVERNMENT FINANCING

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which it operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of expense at the time the eligible expenses are incurred. In the case of certain foreign subsidiaries, the Company receives investment incentive allowances, which are accounted for as a reduction of income tax expense.

ACQUISITIONS

On December 31, 2002, the Company acquired a pharmaceutical manufacturing and development facility located in Cincinnati, Ohio, for total cash consideration of \$28.2 million, including related acquisition costs and inventory and net of liabilities assumed.

The acquisition has been accounted for using the purchase method and the accompanying consolidated financial statements include the results of operations from the date of purchase. The purchase price was allocated in the accounts based on the estimated fair value of the assets acquired less liabilities assumed.

OUTLOOKS AND MARKETS

The results of the Company's 2003 fiscal year reflect a mix of significant achievements and challenges. The Company is pleased with the strong internal growth in Rx manufacturing and PDS in both North America and Europe, particularly at the Toronto and Italian sites. As well, the current financing climate for the biotech sector in both the United States and Europe is becoming more favourable, which will aid growth objectives in these service activities as the Company continues to execute its strategy to serve the innovators.

On a company-wide basis, orders for delivery in the first quarter are approximately \$104 million or 42% higher than a year ago. Excluding strategic revenues related to the Cincinnati acquisition, the Company expects the internal growth rate to be in the low teens and more than half to come from PDS.

A key challenge currently being addressed by the Company is a higher-than-expected rate of decline in base commercial business that will particularly affect the Swindon site in 2004 and, to a lesser extent, the OTC sites in Canada. The Company is repositioning the Swindon site to take advantage of the considerable skills of its employees in sterile manufacturing and to capitalize on the market opportunity for FDA-approved sterile manufacturing capabilities. The lower volumes will result in operating losses at this site in 2004. As for the OTC sites in Canada, the first two quarters of the year will present a difficult environment but the Company is expecting the OTC business to improve through the balance of fiscal 2004.

While the Company has some near-term challenges to address in the first half of 2004, it remains optimistic about the outlook for the balance of the year and beyond.

The Company continues to see strength in PDS activities that have now expanded to four sites – one in Toronto, one in Cincinnati, and two in Europe. At the end of the year, the Company had 97 projects in its PDS pipeline, compared with 86 at the end of the third quarter and 62 at last year end. Of these projects, 28 were in Phase III clinical trials and 6 at the NDA (New Drug Application) stage. Most of the products at the NDA stage are in line for approval by the FDA during 2004, the first as early as May 2004.

The Company continues to see strong growth in commercial revenues from lyophilization (Rx) services at the Italian sites, as well as from Rx manufacturing sites in Canada. At the end of the year, the dollar value of the commercial manufacturing contractual opportunities was twice as high as a year ago.

The Company continues to review a growing number of strategic opportunities to add to its capabilities and technologies.

Based on visibility at this time, the Company foresees 2004 revenue growth in the mid teens and earnings slightly better than 2003.

FORWARD-LOOKING INFORMATION

Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

>>> FIVE-YEAR FINANCIAL SUMMARY

Years ended October 31	2003	2002	2001	2000	1999
(in thousands of U.S. dollars, except share information, per-share amounts and percentages)	\$	\$	\$	\$	\$
REVENUES AND NET EARNINGS					
Revenues	407,144	266,078	207,495	173,669	85,322
EBITDA ⁽¹⁾	49,545	36,162	26,857	23,114	13,410
(% of revenues)	12.2%	13.6%	12.9%	13.3%	15.7%
Depreciation and amortization	16,330	10,354	8,227	5,977	3,604
Interest	4,508	1,999	1,955	2,840	1,385
Provision for income taxes	10,129	5,832	6,100	5,134	3,760
Net earnings before unusual items	18,578	17,977	10,575	9,163	4,934
(% of revenues)	4.6%	6.8%	5.1%	5.3%	5.8%
Write-off of after-tax costs of discontinued acquisition	—	—	—	—	273
Net earnings	18,578	17,977	10,575	9,163	4,661 ⁽⁵⁾
(% of revenues)	4.6%	6.8%	5.1%	5.3%	5.5%
Earnings per share					
Basic	0.36	0.35	0.22 ⁽⁸⁾	0.21 ⁽⁷⁾	0.12 ^(5,6)
Diluted	0.36	0.35	0.21 ⁽⁸⁾	0.20 ⁽⁷⁾	0.12 ^(5,6)
Number of shares					
Outstanding at October 31	51,506	50,913	50,296	46,121	43,067
Weighted average for the year	51,384	50,727	47,924	43,438	40,382
Book value per share at year end	3.77	2.94	2.48	1.77	1.25
FINANCIAL POSITION					
Current assets	149,258	88,487	71,872	53,526	42,583
Current liabilities	110,913	80,650	64,434	49,709	29,710
Working capital	38,345	7,837	7,438	3,817	12,873
Total assets	436,860	285,568	222,584	159,283	108,957
Interest-bearing debt	114,626	54,003	32,408	30,555	26,987
Interest-bearing long-term debt	102,353	38,576	17,255	21,565	20,033
Shareholders' equity	193,923	149,908	124,974	81,482	53,826
Return on shareholders' equity ⁽³⁾	11.4%	13.2%	9.7%	15.2%	13.8%
Interest-bearing debt to shareholders' equity	59.1%	36.0%	25.9%	37.5%	50.1%
Interest-bearing long-term debt to shareholders' equity	52.8%	25.7%	13.8%	26.5%	37.2%
Total capitalization ⁽⁴⁾	308,549	203,911	157,382	112,037	80,813
Interest-bearing debt to total capitalization	37.2%	26.5%	20.6%	27.3%	33.4%
Interest-bearing long-term debt to total capitalization	33.2%	18.9%	11.0%	19.2%	24.8%
CASH FLOW					
Cash provided from operations ⁽²⁾	39,663	31,296	21,420	16,919	7,865
Cash provided by operating activities	35,307	24,153	15,860	7,714	7,246
Additions to capital assets					
— sustaining	14,436	5,938	10,458	8,027	3,660
— project-related	39,233	35,058	17,110	11,411	8,629
Total additions to capital assets	53,669	40,996	27,568	19,438	12,289
Acquisitions	28,220	—	22,712	33,433	8,478
Net proceeds from equity issues	—	—	35,213	24,854	30,429

1) Earnings before interest, income taxes, depreciation and amortization and unusual items.
2) Cash flow from operations before net change in non-cash working capital balances related to operations.
3) Ratio of net earnings to the average shareholders' equity during the fiscal year, adjusted for the effect of share proceeds received during the year.
4) Total capitalization is the sum of interest-bearing debt and shareholders' equity.
5) After write-off of after-tax costs of discontinued acquisition of \$273,000 (\$0.007 per share).
6) FY99 shares outstanding increased 25% as a result of equity offerings in December 1998 and July 1999.
7) FY00 shares outstanding increased 7% as a result of an equity offering in October 2000.
8) FY01 shares outstanding increased 9% as a result of an equity offering in June 2001.

		Q1 RATE	Q2 RATE	Q3 RATE	Q4 RATE	
Average Canadian/U.S. exchange rates	FY99	1.5336	1.5007	1.4733	1.4821	
	FY00	1.4623	1.4600	1.4834	1.4937	
	FY01	1.5226	1.5459	1.5321	1.5597	
	FY02	1.5849	1.5881	1.5424	1.5738	
	FY03	1.5572	1.4822	1.3728	1.3602	
(in thousands of U.S. dollars except per-share amounts)		Q1 \$	Q2 \$	Q3 \$	Q4 \$	YEAR \$
Revenues	FY99	13,994	23,089	23,911	24,328	85,322
	FY00	34,443	46,497	43,935	48,794	173,669
	FY01	42,175	45,506	56,511	63,303	207,495
	FY02	59,072	65,001	70,502	71,503	266,078
	FY03	79,052	105,016	113,379	109,697	407,144
Earnings before interest, taxes, depreciation and amortization and unusual items (EBITDA)	FY99	1,964	3,650	3,713	4,083	13,410
	FY00	3,974	5,632	5,875	7,633	23,114
	FY01	5,163	6,357	6,419	8,918	26,857
	FY02	6,884	8,052	10,520	10,706	36,162
	FY03	7,967	12,073	15,442	14,063	49,545
Depreciation and amortization	FY99	621	1,002	984	997	3,604
	FY00	1,323	1,343	1,586	1,725	5,977
	FY01	1,801	1,896	1,939	2,591	8,227
	FY02	2,205	2,203	2,631	3,315	10,354
	FY03	3,202	3,363	4,435	5,330	16,330
Interest	FY99	260	493	427	205	1,385
	FY00	456	892	769	723	2,840
	FY01	380	439	701	435	1,955
	FY02	381	402	546	670	1,999
	FY03	812	1,173	1,273	1,250	4,508
Net earnings before unusual items	FY99	668	1,231	1,434	1,601	4,934
	FY00	1,219	2,210	2,177	3,557	9,163
	FY01	1,958	2,497	2,373	3,747	10,575
	FY02	2,794	3,830	5,474	5,879	17,977
	FY03	3,080	4,791	6,097	4,610	18,578
Net earnings	FY99	668	1,231	1,161 ⁽²⁾	1,601	4,661
	FY00	1,219	2,210	2,177	3,557	9,163
	FY01	1,958	2,497	2,373	3,747	10,575
	FY02	2,794	3,830	5,474	5,879	17,977
	FY03	3,080	4,791	6,097	4,610	18,578
Basic EPS (US¢) before unusual items	FY99 ⁽¹⁾	1.7	3.1	3.5	3.9	12.2
	FY00 ⁽³⁾	2.8	5.1	5.1	8.1	21.1
	FY01 ⁽⁴⁾	4.2	5.4	5.0	7.5	22.1
	FY02	5.5	7.5	10.8	11.6	35.4
	FY03	6.0	9.3	11.9	9.0	36.2
Basic EPS (US¢)	FY99	1.7	3.1	2.8 ⁽²⁾	3.9	11.5
	FY00 ⁽³⁾	2.8	5.1	5.1	8.1	21.1
	FY01 ⁽⁴⁾	4.2	5.4	5.0	7.5	22.1
	FY02	5.5	7.5	10.8	11.6	35.4
	FY03	6.0	9.3	11.9	9.0	36.2

(1) FY99 shares outstanding increased 25% as a result of equity offerings in December 1998 and July 1999.

(2) After write-off of after-tax costs of discontinued acquisition of \$273,000 (\$0.007 per share).

(3) FY00 shares outstanding increased 7% as a result of an equity offering in October 2000.

(4) FY01 shares outstanding increased 9% as a result of an equity offering in June 2001.

REPORT OF MANAGEMENT'S ACCOUNTABILITY

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgement, are consistent with other information and operating data contained in the annual report and reflect the Company's business transactions and financial position.

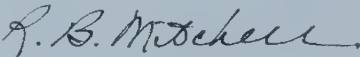
The integrity and reliability of Patheon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Patheon's Code of Business Conduct requires employees to maintain high standards in their conduct of the Company's affairs.

Our shareholders' independent auditors, Ernst & Young LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Board of Directors annually appoints an Audit Committee comprised of Directors who are not employees of the Company. This Committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings. Following its review of the financial statements and the report of the shareholders' auditors, the Audit Committee submits its report to the Board of Directors for formal approval of the financial statements.



ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER



RONALD B. MITCHELL
CHIEF FINANCIAL OFFICER

Toronto, Canada
December 5, 2003

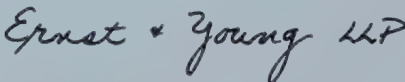
AUDITORS' REPORT

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as at October 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



ERNST & YOUNG LLP
CHARTERED ACCOUNTANTS

Toronto, Canada
December 5, 2003

As at October 31	2003	2002
(in thousands of U.S. dollars)	\$	\$
ASSETS		
Current		
Cash and cash equivalents (note 4)	9,170	5,876
Accounts receivable	93,642	49,212
Inventories (note 5)	46,446	33,399
Total current assets	149,258	88,487
Capital assets, net (note 6)	267,587	180,124
Future tax assets (note 12)	10,730	7,427
Goodwill	2,619	2,215
Deferred pre-operating costs (note 9)	5,244	6,112
Investment	1,422	1,203
	436,860	285,568
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 7)	12,113	15,214
Accounts payable and accrued liabilities	89,292	53,731
Income taxes payable	1,810	1,861
Current portion of long-term debt (note 7)	7,698	9,844
Total current liabilities	110,913	80,650
Long-term debt (note 7)	94,655	28,732
Other long-term liabilities (note 8)	17,627	14,347
Future tax liabilities (note 12)	19,742	11,931
Total liabilities	242,937	135,660
Shareholders' equity		
Share capital (note 10)	118,932	99,963
Retained earnings	65,951	47,373
Cumulative translation adjustment (note 9)	9,040	2,572
Total shareholders' equity	193,923	149,908
	436,860	285,568

See accompanying notes

On behalf of the Board:



PETER A. W. GREEN
DIRECTOR



ROBERT C. TEDFORD
DIRECTOR

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended October 31	2003	2002
in thousands of U.S. dollars except earnings per share)	\$	\$
Revenues	407,144	266,078
Operating expenses	357,599	229,916
Earnings before depreciation and amortization,		
interest and income taxes	49,545	36,162
Depreciation and amortization	16,330	10,354
Interest	4,508	1,999
Earnings before income taxes	28,707	23,809
Provision for income taxes (note 12)		
Current	6,433	4,224
Future	3,696	1,608
	10,129	5,832
Net earnings for the year	18,578	17,977
Earnings per share (note 9)		
Basic	\$0.36	\$0.35
Diluted	\$0.36	\$0.35
See accompanying notes		

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	2003	2002
in thousands of U.S. dollars)	\$	\$
Retained earnings, beginning of year	47,373	29,396
Net earnings for the year	18,578	17,977
Retained earnings, end of year	65,951	47,373
See accompanying notes		

Years ended October 31	2003	2002
(in thousands of U.S. dollars)	\$	\$
OPERATING ACTIVITIES		
Net earnings for the year	18,578	17,977
Add charges to operations not requiring a current cash payment		
Depreciation and amortization	16,330	10,354
Employee future benefits	1,059	1,357
Future income taxes	3,696	1,608
Cash provided from operations	39,663	31,296
Net change in non-cash working capital balances related to operations	(4,356)	(7,143)
Cash provided by operating activities	35,307	24,153
INVESTING ACTIVITIES		
Acquisition of new manufacturing site (note 3)		
Capital assets acquired	(19,288)	—
Inventory acquired	(9,528)	—
Liabilities assumed	596	—
Cash consideration	(28,220)	—
Additions to capital assets		
Sustaining	(14,436)	(5,938)
Project-related	(39,233)	(35,058)
Total additions to capital assets	(53,669)	(40,996)
Decrease (increase) in deferred pre-operating costs	367	(3,926)
Cash used in investing activities	(81,522)	(44,922)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(7,082)	(314)
Increase in term loans	63,124	23,438
Repayment of long-term debt and other long-term liabilities	(8,081)	(3,709)
Issue of common shares	640	723
Cash provided by financing activities	48,601	20,138
Effect of exchange rate changes on cash and cash equivalents	908	(373)
Net increase (decrease) in cash and cash equivalents during the year	3,294	(1,004)
Cash and cash equivalents, beginning of year	5,876	6,880
Cash and cash equivalents, end of year	9,170	5,876
Supplemental cash flow information		
Interest paid	4,720	2,151
Income taxes paid	7,697	6,330
See accompanying notes		

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Patheon Inc. ("Patheon" or the "Company") is a Canadian public company, which trades under the symbol PTI on the Toronto Stock Exchange. The Company is an independent provider of commercial manufacturing and development services of prescription ("Rx") and over-the-counter ("OTC") drugs to the international pharmaceutical industry.

Patheon's commercial manufacturing activities relate primarily to Rx and OTC products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures a wide variety of products to client specifications in many packaging formats. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the client's distribution facilities.

Patheon's pharmaceutical development services include dosage form development, analytical methods development, pilot batch manufacture of new products for the regulatory drug approval process, and the provision of scale-up services designed to show that a drug can be manufactured in commercial volumes.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Company are summarized as follows:

Change in reporting currency

Effective August 1, 2003, the Company adopted the U.S. dollar as its reporting currency. In accordance with Canadian generally accepted accounting principles, the Company is required to restate all presented amounts in U.S. dollars, using the current rate method, whereby all assets and liabilities are translated at the exchange rate in effect at the end of the prior periods, and revenues and expenses are translated at the average rates that were in effect at the end of these periods. The functional currency of each of the Company's operations is unchanged.

For periods after August 1, 2003, the assets and liabilities of the Company's operations having a functional currency other than U.S. dollars, are translated into U.S. dollars using the exchange rate in effect at the end of the period, and revenues and expenses are translated at the average rate during the period.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions have been eliminated.

Revenue recognition

The Company recognizes revenue when services are completed in accordance with the specific terms of contractual arrangements with its clients and all costs connected in providing these services have been incurred.

Foreign exchange translation

Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the year-end exchange rates. Exchange gains and losses on assets and liabilities are recognized in earnings in the current year.

The Company's operations outside of Canada are considered self-sustaining and accordingly their accounts are translated into U.S. dollars using the year-end exchange rates and revenues and expenses are translated at average rates during the year. Exchange gains or losses on translation of the Company's assets and liabilities to U.S. dollars are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in earnings when there is a reduction in the Company's net investment in the operations that gives rise to such exchange gains and losses.

Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts and term deposits with remaining maturities of less than three months at the date the term deposit was acquired.

Inventories

Inventories consisting of raw materials, packaging components and work-in-process are valued at the lower of weighted average cost and net realizable value.

1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets are carried at cost less accumulated depreciation. The cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in earnings.

Depreciation is provided on the straight-line basis based on estimated useful lives as follows:

Buildings	40 – 50 years
Machinery and equipment	5 – 15 years
Office equipment	4 – 10 years
Furniture and fixtures	10 years

Repairs and maintenance costs are charged to operations as incurred.

In the consolidated statements of cash flows, additions to capital assets are classified as either project-related (additions related to revenue growth) or sustaining (additions related to the preservation of existing assets and capacity).

Deferred pre-operating costs

During the development and pre-operating phases of new businesses or facilities, incremental costs are deferred. Once commercial operations have commenced, the costs are amortized on a straight-line basis over five years. Grants under available government assistance programs, relating to these costs, are reflected as a reduction of amounts deferred.

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions. Goodwill is not subject to amortization but is subject to an annual review for impairment, or more frequently if events or changes in circumstances indicate that goodwill is impaired, which consists of a comparison of the fair value of the assets to their carrying value. Any impairment in the carrying value is expensed.

Investment

The investment in the shares of a drug technology company is accounted for on the cost basis whereby the Company records, as earnings, its share of dividends as declared net of any impairment allowance. On an ongoing basis, management reviews the valuation of the investment, taking into consideration any events or circumstances which might have impaired its carrying value.

Employee benefit plans

The cost of pension and post-employment benefits related to employees' current service is charged to earnings annually. In the case of defined benefit plans, the cost is computed on an actuarial basis using the projected benefit method prorated on service and management's best estimates of investment yields, salary escalation and other factors. Pension plan assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are amortized over the remaining service life of active employees. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees.

Unfunded termination benefits for the Company's Italian employees are accrued based on Italian severance pay statutes. The liability recorded on the consolidated balance sheets is the amount to which the employees would be entitled if the employees separated immediately.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Share-based compensation plan

The Company has an incentive stock option plan as more fully described in note 10. No compensation expense is recognized for this plan when stock or stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per share

The calculation of earnings per share is based on the reported net earnings divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all diluted securities using the treasury stock method.

Under the treasury stock method:

- the exercise of options is assumed to be at the beginning of the period (or at the time of issuance, if later);
- the proceeds from the exercise of options are assumed to be used to purchase common shares at the average price during the period; and
- the incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings per share computation.

Government financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which it operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of expense at the time the eligible expenses are incurred. In the case of certain foreign subsidiaries, the Company receives investment incentive allowances, which are accounted for as a reduction of income tax expense.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the consolidated financial statements. Actual results could differ from those estimates.

2 ACCOUNTING CHANGE

Stock-based compensation

Effective November 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to stock-based compensation, issued in 2001. The standard applies only to grants awarded after the adoption date. The Company follows the intrinsic value approach in its 2003 fiscal year financial reporting. In note 16, the pro-forma net earnings and earnings per share data are disclosed as if stock-based compensation had been recognized in earnings.

In October 2003, the CICA issued revisions to Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, which will require companies to adopt the fair-value method of accounting. Companies will be required to expense the cost of options for fiscal years commencing on or after January 1, 2004.

3 ACQUISITION OF NEW MANUFACTURING SITE

On December 31, 2002, the Company acquired a pharmaceutical manufacturing and development facility located in Cincinnati, Ohio, USA, for total cash consideration of \$28,220,000, including related acquisition costs and inventory and net of liabilities assumed.

The acquisition has been accounted for using the purchase method and the accompanying consolidated financial statements include the results of operations from the date of purchase. The purchase price was allocated in the accounts based on the estimated fair value of the assets acquired less liabilities assumed as follows:

	\$
Capital assets acquired	19,288
Inventory acquired	9,528
Liabilities assumed	(596)
Cash consideration for net assets acquired	28,220

4 CASH AND CASH EQUIVALENTS

	2003	2002
	\$	\$
Interest-bearing balances with banks	4,948	3,549
Term deposits	4,222	2,327
	9,170	5,876

5 INVENTORIES

	2003	2002
	\$	\$
Raw materials and packaging components	29,664	22,228
Work-in-process	16,782	11,171
	46,446	33,399

6 CAPITAL ASSETS

	2003		2002	
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
	\$	\$	\$	\$
Land	15,620	–	15,620	12,839
Buildings	111,960	11,331	100,629	59,060
Machinery and equipment	151,904	40,121	111,783	65,228
Office equipment	14,857	6,978	7,879	2,991
Furniture and fixtures	7,150	4,218	2,932	1,926
Construction in progress	28,744	–	28,744	38,080
	330,235	62,648	267,587	180,124

Capital commitments to complete authorized capital projects were \$17,268,000. The majority of these expenditures are expected to be incurred during the year ending October 31, 2004.

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

7 LONG-TERM DEBT AND BANK INDEBTEDNESS

	2003	2002
	\$	\$
Canadian and U.S. revolving facilities, bearing interest at floating rates based on bankers' acceptances, prime, U.S. base rate or LIBOR, maturing in 2005	19,712	6,473
Canadian and U.S. term facilities bearing interest at floating rates based on bankers' acceptances, prime, U.S. base rate or LIBOR, maturing in 2006 (Canadian portion C\$17,999,000)	31,639	—
U.S. mortgage, bearing interest at 3.5%, maturing in 2010	9,000	—
U.S. mortgage, bearing interest at 3.0%, maturing in 2008	2,955	—
Italian credit facilities, bearing interest at floating rates based on 3-month Euribor plus 0.7% to 1.10% (€21,348,000), maturing in 2003, 2011, and 2012	24,783	18,073
Italian mortgage, bearing interest at 4.68% per annum (€10,502,000), maturing in 2008	12,192	11,998
U.K. asset financing facilities, bearing interest at floating rates based on U.K. base rate (£1,191,000)	2,050	1,939
Other	22	93
	102,353	38,576
Less current portion	7,698	9,844
	94,655	28,732

Canada

On December 17, 2003, Patheon entered into a C\$110,000,000 (\$83,352,000) financing commitment with a consortium of Canadian banks to refinance the Company's Canadian operations. This commitment is reflected in the presentation of the financial statements. This revolving, floating rate facility is composed of two parts: i) C\$45,000,000 (\$34,099,000) relates to operating requirements and is committed for two years, and ii) C\$65,000,000 (\$49,254,000) is a three-year committed, revolving, reducing term facility. This facility replaces the non-committed facilities previously in place for the Canadian operations and can be drawn in bankers' acceptance, prime, U.S. LIBOR, U.S. base rate, Euribor, and sterling LIBOR at spreads between 0.35% and 2.00%. The facility is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower and the Canadian operations.

United States

In June 2003, financing arrangements were completed with the State of Ohio. The financing comprises a \$3,000,000, seven-year loan with an interest rate of 3.0% granted under the State of Ohio's 166 Direct Loan program, and a \$9,000,000, five-year bond at 3.5% granted under the Ohio Enterprise Bond Fund. The financing arrangements are being administered by the Ohio Department of Development, which provides funds to borrowers who will create jobs and promote economic development in the State of Ohio.

Europe

The Company's U.K. subsidiary also has an asset finance line of credit with its U.K. bankers of £3,000,000 (\$5,088,000) with interest at base rate plus 0.9% and collateralized by a chattels mortgage on specific assets acquired and fixed and floating charge debentures covering the assets of the borrower. Amounts drawn are repayable in equal monthly installments over a period of 36 months. As at October 31, 2003, the amount outstanding was £1,191,000 (\$2,050,000). The aggregate amount outstanding under the operating line of credit (see bank indebtedness on the following page) and the asset finance line of credit is limited to £6,000,000 (\$10,176,000).

During 2002, the Company's Italian subsidiary completed a financing agreement with its Italian bankers of €10,000,000 (\$11,600,000), which has to be fully drawn by June 30, 2004. No principal payments are required until September 30, 2004, at which time principal payments commence and continue through September 30, 2012. The loan was drawn at €4,000,000 (\$4,644,000) as of October 31, 2003 and bears interest at Euribor (three months) plus 1.08%.

The Company's Italian subsidiary also has long-term facilities in the amount of €15,000,000 (\$17,414,000), all of which was drawn at October 31, 2003. No principal payments are required until June 30, 2004, at which time equal, semi-annual principal payments commence and continue through December 31, 2011. The mortgage bears interest at Euribor plus 1.10%. The facilities are secured by mortgages on the Monza and Ferentino properties.

7 LONG-TERM DEBT AND BANK INDEBTEDNESS (CONTINUED)

The mortgage, bearing interest at Euribor plus 0.7%, assumed on the acquisition of Patheon Italia S.p.A., is collateralized by a second mortgage on one of the Italian subsidiary's buildings. Principal repayments commenced on March 31, 2001 and are payable in equal semi-annual amounts until March 31, 2006.

The mortgage bearing interest at 4.68% was assumed on the acquisition of Patheon Italia S.p.A. and is collateralized by a first mortgage on one of the Italian subsidiary's buildings and a letter of comfort from the Company to the lender. The mortgage is repayable in equal semi-annual amounts until December 31, 2008.

The Company's Italian subsidiary has lines of credit with its European banker of €1,032,000 (\$1,198,000) which, if drawn, would bear interest at a rate of 8% to 8.25%. The Company also has a line to discount invoices of €2,582,000 (\$2,997,000) which, if drawn, would bear interest at 5.25%.

The estimated minimum annual repayment schedule for long-term debt based on current exchange rates for the next five fiscal years is: 2004 – \$7,698,000; 2005 – \$37,614,000; 2006 – \$19,277,000; 2007 – \$21,779,000; 2008 – \$7,046,000.

Interest on long-term debt amounted to \$2,729,000 (2002 – \$1,085,000) for the year.

Bank Indebtedness

United States

The Company's U.S. subsidiary has an operating line of credit with its U.S. bankers of \$10,000,000. The line of credit, with interest at U.S. base rate or LIBOR plus 1.50%, may not exceed an allowable portion of accounts receivable and inventory. The line of credit is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower, a pledge of shares of the borrower and guarantees by the Company and certain of its subsidiaries. As at October 31, 2003, the amount of the line of credit utilized by the Company was \$3,500,000.

Europe

The Company's U.K. subsidiary has an operating line of credit with its U.K. bankers of £4,000,000 (\$6,784,000). The line of credit, with interest at U.K. base rate plus 1%, may not exceed the lesser of £4,000,000 (\$6,784,000) and an allowable portion of accounts receivable. The line of credit is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower, a pledge of shares of the borrower and guarantees by the Company and certain of its subsidiaries. As at October 31, 2003, the amount of the line of credit utilized by the Company was £3,193,000 (\$5,415,000).

8 OTHER LONG-TERM LIABILITIES

	2003	2002
	\$	\$
Unfunded termination indemnities (€5,000,000)	5,813	4,543
Employee future benefits (note 13)	11,744	9,668
Preferred shares (note 10)	161	213
	17,718	14,424
Less current portion included in accounts payable and accrued liabilities	91	77
	17,627	14,347

The unfunded termination indemnities relate to the employees of the Company's Italian subsidiary. In accordance with Italian severance pay statutes, an employee benefit is accrued for service to date and is payable immediately upon separation from employment. The termination indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. The termination liability is adjusted annually by a cost-of-living index provided by the Italian Government. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheets is the amount to which the employees would be entitled if the employees separated immediately. The expense for the year amounted to \$1,050,000 (2002 – \$610,000).

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

9 OTHER INFORMATION

Cumulative translation adjustment

The cumulative translation adjustment amount will be impacted by fluctuations in the value of the U.S. dollar relative to the Canadian dollar, the euro and U.K. sterling.

Unrealized translation adjustments, which arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of \$6,468,000 for the year ended October 31, 2003 (2002 – unrealized currency translation gain of \$4,574,000). For the year ended October 31, 2003, the net unrealized gain of \$6,468,000 is attributable to the weakening of the U.S. dollar against the euro, U.K. sterling and the Canadian dollar as measured at October 31, 2003 and October 31, 2002.

Earnings per share

The following is a reconciliation of the numerator and denominator of earnings per share computations:

	2003	2002
	\$	\$
Net earnings for the year	18,578	17,977
Weighted average number of shares outstanding (numbers in thousands)	51,384	50,727
Effect of dilutive stock options	795	1,130
Diluted weighted average number of shares outstanding	52,179	51,857
Earnings per share		
Basic	\$0.36	\$0.35
Diluted	\$0.36	\$0.35

Options to purchase 442,000 and 874,412 common shares for the years ended October 31, 2003 and 2002, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

Deferred pre-operating costs

Deferred pre-operating costs consist of the following:

	2003	2002
	\$	\$
Start-up costs	7,198	7,168
Accumulated amortization	(1,954)	(1,056)
Net book value	5,244	6,112

Foreign exchange

Foreign exchange loss for the year amounted to \$962,000 (2002 gain – \$1,359,000).

10 SHAREHOLDERS' EQUITY

Share capital

Share capital consists of the following:

	2003	2002
	\$	\$
Authorized		
Unlimited Class I preferred shares issuable in series, eligible for a cumulative cash dividend of C\$6.00 (\$4.55) per share payable annually in arrears. Redeemable at the option of the Company for C\$100 (\$76) per share with 1,331 preferred shares being required to be redeemed annually		
Unlimited common shares		
Issued and outstanding		
▪ 2,360 Class I preferred shares, Series A (2002 – 3,691)	161	213
▪ 51,505,822 common shares (2002 – 50,913,022)	118,932	99,963

Preferred shares

Due to their mandatory redemption provisions, the Company's preferred shares are classified as other long-term liabilities and associated dividends paid are reflected as interest expense. During each of 2003 and 2002, the Company redeemed 1,331 of its preferred shares at C\$100 (\$76) per share.

Shares issued

During the year, the Company issued 592,800 (2002 – 617,097) common shares under the stock option plan for proceeds of \$640,000 (2002 – \$723,000).

Incentive stock option plan

The Company has an incentive stock option plan, which provides for the granting of options for the benefit of employees, officers and directors. The total number of Company shares that may be issued under this plan is 6,422,923. The exercise price per share will be the market price at the time of granting and the maximum term is 10 years. Options generally vest equally after the end of the first, second and third year of grant; however, under certain circumstances, options vest immediately.

A summary (all dollar amounts expressed in Canadian dollars) of the plan and changes during each of 2003 and 2002 are as follows:

	2003		2002	
	SHARES #	WEIGHTED AVERAGE EXERCISE PRICE \$	SHARES #	WEIGHTED AVERAGE EXERCISE PRICE \$
(Dollar amounts expressed in Canadian dollars)				
Outstanding, beginning of year	3,017,111	8.53	3,195,999	6.73
Granted	629,500	13.26	488,150	12.28
Exercised/forfeited	(631,333)	2.35	(667,038)	2.68
Outstanding, end of year	3,015,278	10.81	3,017,111	8.53
Options exercisable at year end	2,300,130	10.03	2,223,249	6.94

The following table summarizes information about options outstanding at October 31, 2003:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.60 – 3.53	435,000	4.1 years	\$2.65	435,000	\$2.65
\$8.15 – 9.91	689,000	6.1 years	\$8.39	689,000	\$8.39
\$10.91 – 13.95	1,241,316	8.5 years	\$12.65	614,364	\$12.31
\$14.01 – 15.96	649,962	7.0 years	\$15.31	561,766	\$15.25

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

11 SHAREHOLDER RIGHTS PLAN

On March 20, 2002, the shareholders approved renewal of an amended and restated shareholder rights plan (the “Renewal Plan”) and continuation of the rights granted under a shareholder rights plan approved by shareholders on March 23, 1999. The Renewal Plan applies to all common shares and all future issues of common shares. The Renewal Plan is designed to encourage fair treatment of all the Company’s shareholders in the event of a take-over bid, to provide shareholders and the Board of Directors with more time to fully consider any unsolicited take-over bid for the Company, to allow the Board of Directors to pursue, if appropriate, other alternatives to enhance shareholder value, and to allow additional time for competing bids to emerge. The Renewal Plan will be in effect until the close of the 2005 annual shareholders’ meeting of the Company.

Under the terms of the Renewal Plan, one right has been granted for each common share. Each right entitles the registered holder to purchase an additional common share for C\$50 (\$38) but is not exercisable until certain events occur. The rights issued under the Renewal Plan become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the Company’s outstanding common shares without complying with the “Permitted Bid” provisions or without approval of the Board of Directors. Should such an acquisition occur, each right would entitle a holder, other than the acquiring person and persons related to it, to purchase common shares of the Company at a 50% discount to the market price.

A Permitted Bid is a bid made to all shareholders that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered, then the offeror may take up and pay for the shares but must extend the bid for a further 10 business days to allow other shareholders to tender.

12 INCOME TAXES

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to income before income taxes:

	2003	2002
	\$	\$
Expected income tax expense using statutory tax rates	9,508	7,926
Permanent differences and other		
Foreign	584	83
Domestic	90	77
Foreign rate differentials	490	36
Benefit resulting from Italian investment tax deductions	(543)	(2,290)
Provision for income taxes	10,129	5,832
Effective tax rate	35.3%	24.5%

12 INCOME TAXES (CONTINUED)

Components of future income taxes by jurisdiction are summarized as follows:

	2003	2002
	\$	\$
Canada		
Future income tax assets – long-term		
Share issue costs	374	568
Accounting provisions not currently deductible for tax purposes	1,459	916
	1,833	1,484
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	7,848	5,686
Investment tax credits	1,033	289
Other	208	–
	9,089	5,975
	2003	2002
	\$	\$
Foreign		
Future income tax assets – long-term		
Accounting provisions not currently deductible for tax purposes	4,717	3,315
Net operating loss carryforward	3,242	588
Other	938	2,040
	8,897	5,943
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	10,328	5,821
Other	325	135
	10,653	5,956

The 2001 Italian investment tax incentive law was enacted in order to encourage capital investments and other expenditures in Italy. Companies are able to reduce their taxable income by up to 50% of the excess of new qualifying capital and other expenditures made during a specified period of time in capital assets (tangibles and specified intangibles) over the average of the investments made in such assets during the five prior years. The incentive law also applies to certain expenses incurred in connection with the training of the companies' personnel. The incentive results in a current deduction and neither increases nor decreases the tax bases of the assets to compute future tax deductions for depreciation and amortization relating to investment deductions granted. As a result, in 2003 the Company recognized a benefit from the investment deductions of \$543,000 (2002 – \$2,290,000). The Company does not expect any further amounts to be recorded in 2004.

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

13 EMPLOYEE FUTURE BENEFITS

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	PENSION PLANS 2003 \$	OTHER BENEFIT PLANS 2003 \$	PENSION PLANS 2002 \$	OTHER BENEFIT PLANS 2002 \$
Change in benefit obligation				
Benefit obligation, beginning of year	48,699	3,264	40,258	2,515
Current service cost	3,102	(5)	2,396	334
Interest cost	3,118	227	2,649	179
Member contributions during the year	785	–	443	–
Benefits paid	(757)	(22)	(1,372)	(14)
Actuarial loss	6,826	218	–	–
Currency translation	5,918	632	4,325	250
Actuarial obligation, end of year	67,691	4,314	48,699	3,264
Change in plan assets				
Market value of plan assets, beginning of year	36,793	–	31,538	–
Actual return of plan assets	2,396	–	917	–
Member contributions during the year	785	–	443	–
Employer contributions	2,937	22	1,976	14
Benefits paid	(757)	(22)	(1,372)	(14)
Currency translation	3,980	–	3,291	–
Market value of plan assets, end of year	46,134	–	36,793	–
	PENSION PLANS 2003 \$	OTHER BENEFIT PLANS 2003 \$	PENSION PLANS 2002 \$	OTHER BENEFIT PLANS 2002 \$
Reconciliation of funded status				
Funded status, deficit	(21,557)	(4,314)	(11,906)	(3,264)
Contributions after measurement date	679	–	443	–
Unamortized net actuarial loss	12,884	564	4,717	342
Accrued benefit liability	(7,994)	(3,750)	(6,746)	(2,922)

13 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The accrued benefit liabilities are included in other long-term liabilities (note 8).

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as at October 31):

	PENSION PLANS 2003 \$	OTHER BENEFIT PLANS 2003 \$	PENSION PLANS 2002 \$	OTHER BENEFIT PLANS 2002 \$
Discount rate	6.5	6.5	7	7
Expected long-term rate of return on plan assets	7	—	7	—
Rate of compensation increase	4	—	4	—

For measurement purposes, a 4% to 11% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2003. The rate was assumed to decrease gradually over the next five years to 6% and remain at that level thereafter.

The Company's defined benefit plan net expense is as follows:

	PENSION PLANS 2003 \$	OTHER BENEFIT PLANS 2003 \$	PENSION PLANS 2002 \$	OTHER BENEFIT PLANS 2002 \$
Components of defined benefit plan expense				
Current service cost	3,102	(5)	2,396	334
Interest cost	3,118	227	2,649	179
Expected return on plan assets (income)	(3,015)	—	(2,443)	—
Net expense	3,205	222	2,602	513

The Company also provides retirement benefits for the majority of its employees at its Canadian and U.S. sites under a defined contribution plan. The total expense for the plan amounted to \$2,249,000 (2002 – \$1,016,000).

14 SEGMENTED INFORMATION

The Company is organized and managed as a single business segment, being the provider of commercial manufacturing and pharmaceutical development services (note 1)

Canadian and foreign operations consist of the following:

	CANADA \$	USA \$	EUROPE \$	TOTAL \$
Twelve months ended October 31, 2003				
Revenues				
Canada	22,890	965	165	24,020
USA	112,946	79,223	2,064	194,233
Europe and other geographic areas	34,209	2,444	152,238	188,891
Total revenues	170,045	82,632	154,467	407,144
Capital assets	98,179	27,711	141,697	267,587
Goodwill	2,619	—	—	2,619

October 31, 2003 and 2002
(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

14 SEGMENTED INFORMATION (CONTINUED)

	CANADA	USA	EUROPE	TOTAL
Twelve months ended October 31, 2002	\$	\$	\$	\$
Revenues				
Canada	27,417	—	—	27,417
USA	99,144	—	37	99,181
Europe and other geographic areas	23,012	—	116,468	139,480
Total revenues	149,573	—	116,505	266,078
Capital assets	78,040	—	102,084	180,124
Goodwill	2,215	—	—	2,215

Revenues are attributed to countries based on the location of the client's billing address, and capital assets and goodwill are based in the country in which they are located. During the years ended October 31, 2003 and 2002, three clients accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, these clients amounted to 25%, 11% and 10% (2002 – 24%, 12% and 14%).

Revenue information by service activity is as follows:

Twelve months ended October 31	2003		2002	
	\$	%	\$	%
Commercial manufacturing – prescription	258,372	63%	165,078	62%
Commercial manufacturing – over-the-counter	106,351	26%	66,370	25%
Pharmaceutical development services	42,421	11%	34,630	13%
	407,144	100%	266,078	100%

15 COMMITMENTS AND CONTINGENCIES

Long-term leases

The Company has entered into long-term rental agreements expiring at various dates until 2014. The future rental payments for the next five years are estimated as follows: 2004 – \$925,000, 2005 – \$632,000, 2006 – \$534,000, 2007 – \$534,000, 2008 – \$187,000.

16 STOCK-BASED COMPENSATION

The Company applies the intrinsic value method to account for stock-based compensation. Accordingly, the Company does not recognize compensation expense for its incentive stock option plan. Had compensation expense been determined based on the fair value at grant dates for stock options granted on or after November 1, 2002, the Company's results would have been:

	\$
Net earnings as reported	18,578
Pro-forma compensation expense	(1,421)
Pro-forma net earnings	17,157
Pro-forma earnings per share:	
Basic	\$0.33
Diluted	\$0.33

The weighted average fair value of stock options granted for the year ended October 31, 2003 was \$3.91. The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	4.0%
Expected volatility	48%
Expected weighted average life of the options	4.3 years
Expected dividend yield	0%

17 FINANCIAL INSTRUMENTS

(a) Foreign exchange forward contracts

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange rates.

The Company has entered into foreign exchange expandable forward contracts with an aggregate amount of between US\$22,000,000 and US\$33,000,000 as at October 31, 2003 (2002 – US\$16,000,000 and US\$20,000,000). These contracts mature at the latest on September 30, 2004 at exchange rates varying between 1.3189 and 1.3384 Canadian.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecast transactions.

There was no significant unrealized gain or loss on these financial instruments as at October 31, 2003.

(b) Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

Cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Long-term debt

The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, is not materially different from its carrying value.

(c) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable and foreign exchange forward contracts with positive fair values.

The Company, in the normal course of business, is exposed to credit risk from its clients, substantially all of which are in the pharmaceutical industry. These accounts receivable are subject to normal industry credit risks.

Cash and cash equivalents, which consist of short-term investments, are only invested in entities with an investment grade credit rating. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company is also exposed to credit risk from potential default by any of its counterparties on its forward exchange forward contracts. The Company manages this credit risk by dealing with counterparties which are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

(d) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities and its present levels of fixed rate long-term debt.

18 COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform to the current year presentation.

From left to right:

Bryce W. Douglas, George L. Ploder,
Nick A. DiPietro, Robert C. Tedford, Peter A.W. Green,
The Honourable Roy MacLaren, P.C.,
E. James Arnett, Q.C., Derek J. Watchorn
(absent from photo: Gregory C. Wilkins)



**PETER A.W. GREEN**

Mr. Green is currently Chair of the Board of Patheon Inc. He is also Lead Director of Superior Plus Inc. and a Director of Gore Mutual Insurance Company. Mr. Green has been Chair of the Board of Patheon Inc. since 1996. He is a Chartered Accountant.

**ROBERT C. TEDFORD**

Mr. Tedford has been Chief Executive Officer of Patheon Inc. since 1996. He joined Patheon in 1992 as Chief Financial Officer. Mr. Tedford previously held senior management positions in one of Canada's leading international accounting firms. He is a graduate of McGill University and Harvard Business School's Advanced Management Program and is a Chartered Accountant. He has been a Director of Patheon since 1992.

**NICK A. DIPIETRO**

Mr. DiPietro is President and Chief Operating Officer of Patheon Inc. He joined a predecessor corporation of Patheon in 1982, becoming President of the Niagara Region and Burlington operating divisions in 1989. He was appointed to his current position in 1996. Mr. DiPietro holds an Honours B.Sc. in Biochemistry and an MBA from McMaster University. He has been a Director of Patheon since 1993.

**E. JAMES ARNETT, Q.C.**

Mr. Arnett is Counsel to the law firm Fraser Milner Casgrain LLP. Mr. Arnett is also Chair of the Board of Trustees of KCP Income Fund and Canada's National History Society, Vice-Chair of Toronto East General Hospital, and a Director of Mirabaud Canada Inc. He served as President and Chief Executive Officer of Molson Inc. from 1997 to 2000. Mr. Arnett holds a B.A. and an LL.B. from the University of Manitoba, and a Master of Laws from Harvard University. He joined Patheon's Board in March 2001.

**BRYCE W. DOUGLAS**

Mr. Douglas is Chair of the Toronto General & Western Hospital Foundation, a Trustee of Legacy Hotels Real Estate Investment Trust, and a Governor of Lakefield College School. Mr. Douglas retired in 2002 after a distinguished 39-year career with RBC Financial Group, serving latterly as Deputy Chairman of RBC Capital Markets from 1995 until his retirement. He joined Patheon's Board in September 2000.

**THE HONOURABLE ROY MACLAREN, P.C.**

The Honourable Roy MacLaren, P.C. is currently a Director of Algoma Central Corporation, Brascan Corporation, and Standard Life. He previously served as the High Commissioner for Canada to the United Kingdom of Great Britain and Northern Ireland from 1996 to 2000 and was formerly Canada's Minister of International Trade. Mr. MacLaren holds a B.A. from the University of British Columbia and an M.A. from the University of Cambridge. He joined Patheon's Board in January 2001.

**GEORGE L. PLODER**

Mr. Ploder is a Director of Bennett Environmental Inc. and Vital Retirement Living Inc. He served as Chief Executive Officer and President of Bracknell Corporation from 1989 to 1999. Mr. Ploder is a Chartered Accountant and has been a Director of Patheon since 1992.

**DEREK J. WATCHORN**

Mr. Watchorn is Executive Vice-President, Strategic Initiatives, of Canary Wharf Group plc in London, England. Mr. Watchorn was a senior partner of the law firm Davies Ward Phillips & Vineberg LLP from September 2001 until January 10, 2003 and previously from 1970 to 1999. He was formerly the Executive Director of TrizecHahn Europe in London, England, from 1999 to September 2001. Mr. Watchorn holds an LL.B. from the University of Toronto and has been a Director of Patheon since 1998.

**GREGORY C. WILKINS**

Mr. Wilkins is Chief Executive Officer and President and a Director of Barrick Gold Corporation. Mr. Wilkins was a financial consultant from June 2001 until February 2003. He served as President and Chief Operating Officer of TrizecHahn Corporation Ltd. between 1996 and June 2001. Mr. Wilkins holds a B.Com. from Concordia University and is a Chartered Accountant. He joined Patheon's Board in March 2003.

OVERVIEW

Integrity, respect and excellence are the core principles that govern the way we fulfill our responsibilities to shareholders and operate our business. These principles are embodied in Patheon’s Code of Business Conduct. Maintaining high standards of excellence in our corporate governance practices is consistent with these principles and continues to be a priority for Patheon.

We monitor and regularly update and enhance our corporate governance practices to ensure that Patheon is complying with the evolving standards and guidelines of securities regulators and the Toronto Stock Exchange, and to ensure that our approach reflects the best practices proposed by various public interest groups.

We also assess the perception of our corporate governance practices relative to other corporations, as benchmarked in studies conducted by independent parties. For example, in a September 2003 study by The Globe and Mail’s Report on Business, Patheon tied for 27th place among the 207 companies that form the S&P/TSX Composite Index, scoring 83 out of 100 possible points. We rated particularly well in the areas of Board independence, shareholder rights issues and disclosure practices. Patheon also earned an “A” grade and outperformed 75% of S&P/TSX companies on the Board Shareholder Confidence Index developed by the University of Toronto’s Clarkson Centre for Business Ethics & Board Effectiveness. While we are pleased with this positive recognition of our corporate governance practices, we also use the ranking information to identify areas where Patheon can further enhance and improve its practices.

BOARD INDEPENDENCE

The nine members of the Board of Directors of Patheon comprise seven directors who are independent and are not related to the Company, together with the Chief Executive Officer and the President and Chief Operating Officer. Since 1996, the role of Chair of the Board of Directors has been held by an unrelated and independent director.

A portion of every Board meeting is held in camera at which only non-management directors are present. In accordance with procedures of the Corporate Governance Committee, Board members are able to engage special advisors in appropriate circumstances.

COMMITTEES

The Board’s principal responsibilities are managed with three committees of the Board: Audit Committee, Corporate Governance Committee, and Compensation and Human Resources Committee. All three committees are composed exclusively of independent, unrelated directors. The following summarizes the principal duties and responsibilities of these committees:

Audit Committee

- Provides assistance to the Board of Directors in fulfilling its oversight responsibilities relating to:
 - Patheon’s financial information, including financial statements and management’s discussion and analysis thereof,
 - systems of internal accounting, financial controls, and risk management,
 - annual independent audit of Patheon’s financial statements, and
 - legal compliance and ethics programs as established by management and the Board
- At each meeting, the Audit Committee meets in camera with the external auditor.

Members:

- George L. Ploder (Chair)
- Bryce W. Douglas
- Peter A.W. Green
- Gregory C. Wilkins

Times met during year ended October 31, 2003: 4

Compensation and Human Resources Committee

- Monitors, evaluates and makes recommendations to the Board to ensure that Patheon’s policies and programs relating to executive and director compensation: (a) are appropriate in light of individual executive responsibility and performance and the achievement of Patheon’s objectives; and (b) will permit Patheon to attract and retain the services of experienced and highly qualified executives and members of the Board
- Reviews and makes recommendations to the Board about: (a) the specific employment contracts and compensation arrangements with Patheon’s Chief Executive Officer and its Chief Operating Officer; and (b) the compensation and incentive programs for the executive officers and senior management of Patheon
- Ensures that there are effective succession plans in place for the Chief Executive Officer, Chief Operating Officer and other senior executives of Patheon
- Administers Patheon’s Incentive Stock Option Plan and approves the grant of options under such Plan

Members:

Derek J. Watchorn (Chair)
E. James Arnett
Bryce W. Douglas
Peter A.W. Green
The Honourable Roy MacLaren, P.C.

Times met during year ended October 31, 2003: 2

Corporate Governance Committee

- Monitors and evaluates Patheon’s corporate governance policies and procedures and proposes improvements as appropriate
- Acts as a forum for the concerns of individual directors of Patheon about matters which may not be appropriate for discussion in full meetings of the Board, including the performance of management or individual members of management or the performance of the Board or individual directors
- Recommends candidates for election to the Board

Members:

E. James Arnett (Chair)
Bryce W. Douglas
Peter A.W. Green
The Honourable Roy MacLaren, P.C.
George L. Ploder
Derek J. Watchorn
Gregory C. Wilkins

Times met during year ended October 31, 2003: 3

DISCLOSURE POLICY

Patheon’s Corporate Disclosure Policy guides Patheon in its interaction with shareholders, analysts and the public. It reflects the underlying principles that disclosure of material facts and material information about the company should be: (a) timely, factual and accurate; and (b) broadly disseminated in accordance with all applicable legal and regulatory requirements. The Policy also reflects best practices recommended by the Canadian Investor Relations Institute.

FURTHER INFORMATION

Further details of Patheon’s approach to corporate governance issues are contained in our Management Proxy Circular for the 2004 Annual Meeting of Shareholders.

Patheon’s Code of Business Conduct and the Charters of the Board Committees are available on Patheon’s website at www.patheon.com.



ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER



NICK A. DIPIETRO
PRESIDENT AND
CHIEF OPERATING OFFICER



CLIVE V. BENNETT
PRESIDENT,
PATHEON NORTH AMERICA



ALDO BRACA
PRESIDENT,
PATHEON EUROPE



SHABBIR T. ANIK, PH.D., MBA
EXECUTIVE VICE-PRESIDENT,
PHARMACEUTICAL DEVELOPMENT
SERVICES AND
CHIEF SCIENTIFIC OFFICER



MICHAEL S. HARDING
EXECUTIVE VICE-PRESIDENT,
GLOBAL QUALITY OPERATIONS

Prior to his appointment to Patheon's Management Advisory Board in January 2000, Mr. Bennett's 30-year career in the pharmaceutical industry included 23 years with Hoechst Marion Roussel (now Aventis), where he served as Senior Vice-President of Operations and Head of Global Drug Product Supply from 1995 until 1999. In that role, he was responsible for the company's dosage manufacturing network of 77 sites and 12,500 employees. Mr. Bennett served as a consultant to Patheon's European subsidiaries from July to December 2001, was appointed Executive Vice-President, Operations in January 2002, and to his current position in January 2004. He holds a Bachelor of Science (Hons.) in Chemistry from Bath University (U.K.).

Trained as an industrial chemist, Mr. Braca's career includes 29 years with the European operations of Bristol-Myers Squibb, where he held positions of increasing responsibility. Prior to joining Patheon in 1999, Mr. Braca was President – Worldwide Manufacturing, Technical Operations, Worldwide Medicines Group, Bristol-Myers Squibb, with responsibility for 32 manufacturing plants and approximately 10,000 employees. Mr. Braca joined Patheon in 1999 and was appointed Executive Vice-President, European Business Development and President, Patheon Italia S.p.A., in July 2001. He was appointed to his current position in January 2004.

Dr. Anik received his Ph.D. in Pharmaceutical Sciences from the University of Wisconsin and his MBA from Santa Clara University. He began his career at Syntex Research where, over a 17-year period, he held positions of increasing responsibility in formulation development, technology transfer, manufacturing, analytical chemistry and program management. In 1995, he joined biotechnology company Neurex as head of Pharmaceutical Development and Operations, and in 1997 became Vice-President of Product Development with a California-based contract pharmaceutical development company. Dr. Anik joined Patheon in 1999 and is responsible for building Patheon's PDS business globally.

Mr. Harding brings more than 24 years of pharmaceutical manufacturing experience to his position. He joined a predecessor corporation of Patheon in 1979, serving in a number of positions in client service and operations before becoming Production Manager at the company's Niagara Region Operations facility in 1982. Mr. Harding subsequently held increasingly senior roles in quality affairs and in 1988 was appointed Director of Quality Assurance and Technical Affairs. He was appointed Senior Vice-President, Global Quality Operations in 1998 and to his current position in January 2004. Mr. Harding holds a Bachelor of Science (Hons.) in Biology from the University of Western Ontario.

>>> MANAGEMENT ADVISORY BOARD

Established in 1999, the Management Advisory Board provides strategic counsel to Patheon's senior executives on current developments in the global pharmaceutical industry – guiding the Company toward achieving the leadership position in providing integrated pharmaceutical manufacturing and development services to the innovators in the industry.



RONALD B. MITCHELL, C.A.
CHIEF FINANCIAL OFFICER
AND SENIOR VICE-PRESIDENT,
FINANCE AND TREASURER

Mr. Mitchell joined Patheon in 2001. He has more than 25 years of financial management experience with both major public and private companies, including extensive experience in financial reporting, financings, international corporate and tax structuring, mergers and acquisitions, financial control systems and business financial planning. He has previously held executive positions with Parmalat Canada, St. Joseph Corporation, and the Thomson Newspapers Corporation.

Mr. Mitchell has a Bachelor of Arts (Hons.) from Queen's University and is a Chartered Accountant.



RICCARDO TRECROCE
GENERAL COUNSEL,
SECRETARY AND
SENIOR VICE-PRESIDENT,
CORPORATE ADMINISTRATION

Mr. Trecroce's background includes more than 20 years of corporate and commercial legal experience, focusing on acquisitions and divestitures, partnerships and joint ventures, shareholder relations, corporate governance and law firm management. Prior to joining Patheon in 2000, Mr. Trecroce was a partner for 12 years in the Toronto office of Fraser Milner Casgrain LLP, one of Canada's leading business law firms. Mr. Trecroce holds a Bachelor of Arts degree in International Relations from Concordia University and Bachelor of Laws and Bachelor of Civil Law degrees from McGill University. He was called to the Bar in the province of Alberta, Canada in 1982 and in the province of Ontario, Canada in 1985.



TOM L. FERGUSON
SENIOR VICE-PRESIDENT,
GLOBAL INFORMATION
TECHNOLOGY

Mr. Ferguson is an accomplished IT professional who has been responsible for implementing a consistent systems strategy across Patheon's global network of facilities. After graduating from the University of Waterloo with an Honours Bachelor of Mathematics (Computer Science major) in 1989, Mr. Ferguson began his career with The Mutual Group, (now Sun Life Financial). He joined Patheon in 1993 and was appointed Vice-President, Information Technology in 2000 and to his current position in January 2004. He earned a Diploma in Accounting from Wilfrid Laurier University in 1993, and received his Certified Management Accountant designation in 1997.



RON J. QUON
SENIOR VICE-PRESIDENT,
CORPORATE HUMAN
RESOURCES AND EH&S

Mr. Quon brings a diverse range of management experience to his role, acquired during a 30-year career in the pharmaceutical industry. Prior to joining Patheon, Mr. Quon held progressively senior operational positions in several leading companies, including Sterling Health Limited, Rorer Canada Inc., Connaught Laboratories and the Upjohn Company. Mr. Quon joined a predecessor corporation of Patheon in 1990 and was appointed to his current position in 1998. Mr. Quon holds a Bachelor of Science degree in Chemistry from McGill University.

G. JOE BLAKER, PH.D.
INDEPENDENT DIRECTOR AND BUSINESS ADVISOR

In 1999, Dr. Blaker joined Patheon's Management Advisory Board. Previously, he served as worldwide head of pharmaceutical and fine chemical manufacturing operations for Glaxo Wellcome, responsible for 53 manufacturing sites employing more than 18,000 people. Dr. Blaker serves as a non-executive director of a number of companies in the healthcare sector, including Phoqus Group Ltd. and Idea AG. In addition, he acts as advisor to several other pharmaceutical and chemical companies. Dr. Blaker resides in Beaconsfield, England.

RUDOLF A. MEYER
BUSINESS ADVISOR

Mr. Meyer joined Patheon's Management Advisory Board in January 2002. An experienced pharmaceutical industry executive, Mr. Meyer served F. Hoffmann-La Roche during a distinguished 32-year career, most recently as Senior Vice President of Global Supply Chain and Manufacturing. Mr. Meyer is presently Chairman of InterPharmaLink AG, a globally active health-care consulting company based in Basel. In addition, he is a Board member of several private companies and provides advisory services to the pharmaceutical and biotechnology industry. Mr. Meyer is fluent in German, English, French and Spanish and currently resides in Basel, Switzerland.

NORTH AMERICA



RONALD B. SCHALLICK
VICE-PRESIDENT,
NORTH AMERICAN OPERATIONS

CINCINNATI OPERATIONS
2110 East Galbraith Road
Cincinnati, Ohio 45215-6300
U.S.A.
Tel.: (513) 948-9111

Site Director: BOB ZINSER
■ 567 employees
■ 457,000 square feet
■ Solid, semi-solid and liquid dosage forms

TORONTO REGION OPERATIONS
2100 Syntex Court
Mississauga, Ontario L5N 7K9
Canada
Tel.: (905) 821-4001

Site Director: DEBBIE RAK
■ 607 employees
■ 239,500 square feet
■ High-potency, solid, semi-solid and liquid dosage forms

TORONTO YORK MILLS OPERATIONS
865 York Mills Road
Toronto, Ontario M3B 1Y5
Canada
Tel.: (416) 443-9030

Site Director: ROMAN B. CHARKO
■ 205 employees
■ 160,000 square feet
■ Solid, semi-solid and liquid dosage forms

BURLINGTON CENTURY OPERATIONS
977 Century Drive
Burlington, Ontario L7L 5J8
Canada
Tel.: (905) 639-5254

Site Director: DICK RENWICK
■ 107 employees
■ 45,000 square feet
■ Solid dosage forms

BURLINGTON GATEWAY OPERATIONS
921 Gateway Drive
Burlington, Ontario L7L 5K5
Canada
Tel.: (905) 639-4933

Site Director: DICK RENWICK
■ 76 employees
■ 22,800 square feet
■ Powders

NIAGARA REGION OPERATIONS
P.O. Box #158
333 Jarvis Street
Fort Erie, Ontario L2A 5M9
Canada
Tel.: (905) 871-1870

Site Director: GRANT D. GILKER
■ 315 employees
■ 132,800 square feet
■ Solid, semi-solid and liquid dosage forms

WHITBY OPERATIONS
111 Consumers Drive
Whitby, Ontario L1N 5Z5
Canada
Tel.: (905) 668-3368

Site Director: FRED KILPATRICK
■ 483 employees
■ 192,700 square feet
■ Solid, powder and liquid dosage forms



EUROPE

THEODORE ILIOPOULOS
VICE-PRESIDENT,
NORTHERN EUROPEAN OPERATIONS

BOURGIGN-JALLIEU OPERATIONS
40, boulevard de Champaret
B.P. 448
38317 Bourgign-Jallieu, Cedex
France
Tel.: +33 4 7493 8700

Site Director: DOMINIQUE RIVOIRE
■ 228 employees
■ 272,000 square feet
■ Solid and liquid dosage forms

SWINDON OPERATIONS
Kingfisher Drive
Covingham, Swindon
Wiltshire SN3 5BZ
England
Tel.: +44 1793 524411

Site Director: MICHEL GRANDJEAN
■ 576 employees
■ 293,000 square feet
■ Sterile liquids, sterile powdered cephalosporins, solid and semi-solid dosage forms

BRUNO PICECCHI
DIRECTOR,
ITALIAN OPERATIONS

FERENTINO (ROME) OPERATIONS
Via Morolense 87
03013 Ferentino (FR)
Italy
Tel.: +39 0775 3991

Site Director: WALTER SILI
■ 159 employees
■ 144,000 square feet
■ Sterile lyophilized and sterile liquid dosage forms

MONZA OPERATIONS
Viale G.B. Stucchi, 110
I-20052 Monza
Italy
Tel.: +39 039 2047 1

Site Director: ANTONELLA MANCUSO
■ 409 employees
■ 344,000 square feet
■ Sterile lyophilized, sterile liquids, solid and liquid dosage forms



EUROPEAN BUSINESS OFFICE
Via Morolense 87
03013 Ferentino (FR)
Italy
Tel.: +39 0775 3991
Fax: +39 0775 399 259

CORPORATE OFFICE

7070 Mississauga Road
Suite 350
Mississauga, Ontario
L5N 7J8
Canada
Tel.: (905) 821-4001
Fax: (905) 812-6705

SHAREHOLDER ACCOUNT ENQUIRIES

Computershare Trust Company of Canada
100 University Avenue, 9th floor
Toronto, Ontario
M5J 2Y1
Canada
Tel.: 1-800-564-6253
Email: service@computershare.com
Website: <http://www.computershare.com>

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada

INVESTOR AND FINANCIAL INFORMATION

Robert C. Tedford
Chief Executive Officer
Tel.: (905) 812-6768
Fax: (905) 812-6705
Email: rtedford@patheon.com

Ronald B. Mitchell
Chief Financial Officer
Tel.: (905) 812-6621
Fax: (905) 812-6705
Email: rmitchell@patheon.com

AUDITORS

Ernst & Young LLP

LEGAL COUNSEL

Davies Ward Phillips & Vineberg LLP – Toronto, Canada
Macfarlanes – London, England
Janni, Magnocavallo, Fauda, Brescia e associati –
Milan, Italy
Cabinet Ratheaux – Lyon, France

LENDERS

Banca Intesa S.p.A.
Bank of Montreal
Canadian Imperial Bank of Canada
HSBC Bank
Ohio Department of Development –
Ohio Enterprise Bond Fund ("OEBF")
Royal Bank of Canada

DIVIDEND POLICY

The Board of Directors periodically reviews the dividend policy of Patheon Inc.

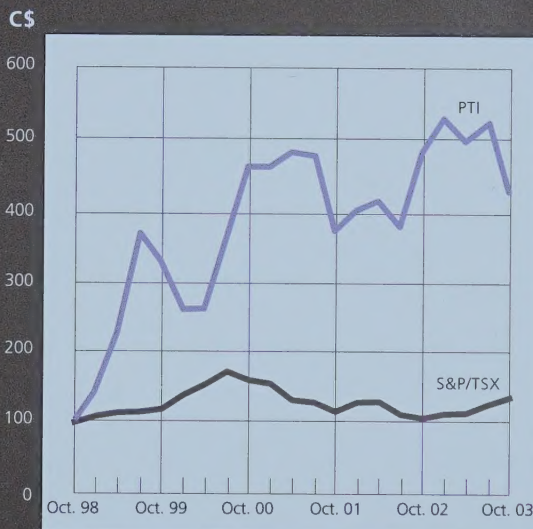
The Company currently does not pay dividends on its common shares, and has no plans to do so in the foreseeable future, preferring to reinvest its cash to enhance the Company's growth.

SHARE INFORMATION

(all share prices expressed in Canadian dollars)
as of October 31, 2003, except recent price
Listing: Toronto Stock Exchange (TSX)
Symbol: PTI
Shares Outstanding: 51,505,822
Public Float: 50,541,000
High/Low/Close for Year Ended October 31, 2003:
\$16.66/\$12.26/\$12.75
Recent Price (January 23, 2004): \$11.37

PATHEON STOCK PERFORMANCE (PTI) VERSUS THE S&P/TSX COMPOSITE INDEX-TOTAL RETURN*

(VALUE OF C\$100 INVESTED ON OCTOBER 31, 1998)
(ALL INVESTMENT VALUES EXPRESSED IN CANADIAN DOLLARS)



*Includes reinvested dividends.

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend Patheon's Annual Meeting of Shareholders to be held at 11:30 a.m. (Eastern Standard Time) on Thursday, March 4, 2004:

Park Hyatt Toronto
Queen's Park Ballroom
4 Avenue Road
Toronto, Ontario
M5R 2E8

The meeting will be broadcast live over the Internet on Patheon's website at www.patheon.com. An archived version of the webcast will be available on Patheon's website after the meeting.

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www.patheon.com